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routes to market 2000

A Review of Current and Future Issues facing Channel Managers

Commissioned by VIA International Ltd in support of the Routes to Market Association (RTMA)



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Writers have frequently commented on the strategic significance of channel design and management. Channel change can be difficult to achieve given its capacity to affect a broad range of functional areas and the time that it can take to establish and/or terminate channel relationships¹. Channel decision-making also has important implications for organisational efficiency and effectiveness². In many industries, a significant proportion of the final price of goods and services is accounted for by distribution costs. Bucklin³, for example, quotes research conducted by the Economist Intelligence Unit (EIU), which indicates that distribution channels can account for anywhere between 15% and 41% of the final price of goods and services. Thus, relatively small changes in marketing channel costs can significantly affect supplier profits⁴. At the same time, however, a company's delivery channels are likely to form an important and integral part of their overall customer value proposition⁵.

Nevertheless, there is evidence, albeit anecdotal, that channel decisions are increasing in importance on corporate agendas⁶. In recent years, with the advent of the Internet and increased competition from direct marketers, companies are beginning to question the validity of their long-established channel structures and routes to market models. Furthermore, the distinction between communication and distribution channels is becoming increasingly blurred. Companies are recognising that delivery channels are also a conduit for acquiring knowledge about end-user needs and preferences, and building relationships with them. The need to gain access to end-user information and use this as a basis for Customer Relationship Management (CRM) programmes has become a key issue⁷.

In a recent article Gary Frazier a leading authority on channel management sums up the rising importance of the area to organisations when he states:

As the world economy evolves, more and more companies are highlighting channel management as among their very top priorities. The opportunities for channel researchers to contribute to knowledge creation in the marketing discipline and, at the same time, affect business practice are almost endless.

Gary. L.Frazier (1999) ⁸

This report attempts to identify the issues faced by channel managers as they move into the new millennium. It has been compiled by Dr Stuart Hanmer-Lloyd and Paul Hopkinson, members of the Centre for Research in Service (CeReS), Gloucestershire Business School on behalf of VIA International Ltd. VIA International is a global channel strategy and implementation consultancy who specialise in routes to market. They have particular expertise in helping companies design and manage their routes to market both effectively and efficiently. This research report addresses the specific topic of investigating companies routes to market strategies.

The overall purpose of the research was to gather appropriate information from channel management personnel to identify current and future trends in routes to market thinking. The specific research objectives were:

- 1) To identify relevant themes from the channel management literature to inform the research.
- 2) To identify the views of relevant channel manager professionals in relation to current and future issues in Routes to Market.
- 3) To identify how well channel managers know their end customers and the value and experiences their customers seek.
- 4) To identify how channel managers' views may vary between the different business sectors (e.g. services, manufacturing).
- 5) To identify channel managers' views in relation to current and future issues of strategic channel management (e.g. channel mix and integration).
- 6) To identify channel managers' views of relevant personal skills and competencies required within the channel management function.
- 7) To identify channel managers' views on the major barriers to implementing current and future channel management strategies within their organisations.

The following section of the report provides an overview of the research methodology.

To address the research objectives, both primary and secondary research was undertaken.

3.1 Secondary research

The first stage of the research involved a review of the extant literature surrounding the fields of channel management and 'routes to market'. The literature search followed the process recommended by Saunders *et al.*⁹ and was carried out using a combination of the following:

- Full-text databases and abstracting services, including ABI Inform, Emerald, BIDs, European Business, and ANBAR
- Scanning key journals and edited books
- Following up references in existing articles
- Internet based search engines (e.g. MSN, Excite and Yahoo).

The articles themselves were obtained using a combination of local university libraries and the inter-library loans system, except where full-text versions were available electronically. Over 160 articles were read and analysed to inform the research. These have been fully referenced at the end of the report so that the reader can follow in detail any issues of particular interest.

Articles from academic and practitioner journals were supplemented with a number of other primary and secondary literature sources including university working papers, conference papers, consultancy reports, books and a transcript from a Radio 4 programme entitled: "Business and the Internet", May 2nd 1999.

3.2 Primary research

3.2.1 Research design

The review of the literature informed the second phase of the research, which involved a series of semi-structured, semi-depth interviews with key informants associated with the global Routes to Market Association (RTMA). Qualitative methods were chosen in order to provide a richer understanding of the issues faced by channel managers and to allow specific topics to be probed in depth¹⁰. They were also chosen in order to provide a level of "local grounding"¹¹: i.e. they provided the researchers with a means of developing a better understanding of the realities of channel management in different product-market settings and a basis to challenge existing theory surrounding the channel management process.

3.2.2 Data collection

A total of 19 interviews were carried out. Table 1 provides a profile of the interviewees in terms of business sector:

Table 1 Profile of Interviewees by Business Sector

Business Sector	Number of Interviews
Financial Services	4
Software	3
Computer Hardware Manufacturing	4
Other Manufacturing	7
Other Services	1

The interviews were structured around the topic guide shown in table 2 below.

Table 2 Interview Topic Guide

- Company, interviewee role and responsibilities
 - Market characteristics, evolution and dynamics
 - Channel strategy: past, present and future (2-5 years)
 - Major challenges in achieving channel strategy
 - (i) Internal
 - (ii) External
 - Impact of technology and IT on channel strategy:
 - (i) New routes to market
 - (ii) Interactions with current channel members
 - Skills required within the channel management function
-

The topic list was supplemented with a number of themes arising from the literature, which were to be used as the basis for probing questions. These included:

- Managing channel change and channel related transitions
- Managing channel relationships
 - 1) Conflict
 - 2) Power and influence
 - 3) Trust
 - 4) Commitment
 - 5) Monitoring and evaluating channels
 - 6) Motivating and supporting channels
- Gaining knowledge of the customer/end-user
- Internet and Extranet strategies
- Multiple channel management and hybrid channels
- Channel typologies.

All interviews were taped and transcribed. The process of analysis is described below.

3.2.3 Data analysis

For the purposes of triangulation, the transcripts were analysed separately by two individuals. This was followed by a series of meetings to compare results and identify common themes.

The transcripts themselves were analysed within the context of the research objectives. However, the themes were allowed to emerge in an 'inductive' manner¹². These were then compared and synthesised with themes arising out of the literature review. The report therefore represents a synthesis of these two important elements.

The following chapter of the report is devoted to the research findings. These are arranged into sections corresponding to the themes, which emerged from the analysis of the literature and interview transcripts.

This chapter discusses the main research findings and is arranged into sections that correspond to the emergent themes.

4.1 Channels evolution

4.1.1 Drivers for channel change

The research identified a number of factors prompting firms to review their routes to market strategies. Some of these factors are specific to particular product-markets or company situations and others are of a more general nature.

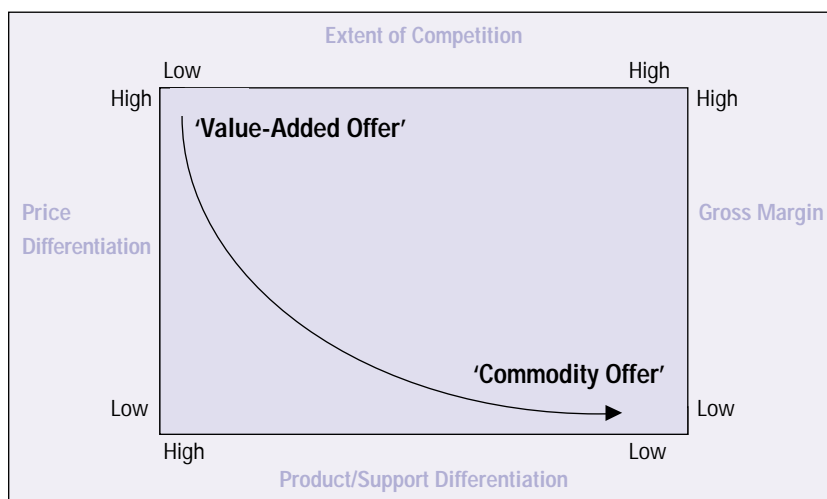
Changes in customer behaviour, expertise and sophistication

In the computer hardware sector, for example, the success of companies such as Gateway and Dell suggests that segments of the market are becoming increasingly comfortable with purchasing PCs via 'lower value-added', direct marketing channels: that is, over the telephone and, increasingly the Internet. 'Plug-and-play' product design, product standardisation and increased customer familiarity with computer technology have combined to reduce some of the risk and uncertainty associated with purchasing and installing computer hardware. The result is that many customers need much less handholding and support and companies need to cater for these segments in their routes to market strategy¹³.

Product commoditisation

Organisations in a variety of sectors indicated that their product offerings had become, or were becoming commodities¹⁴ (See Figure 1, below). For example, as indicated above, the scope for PC manufacturers to differentiate their offerings has been eroded over-time by factors such as 'plug and play' design principles, product standardisation (i.e. most PCs are designed around common industry platforms) and increased levels of buyer education and expertise. As a consequence, many companies have made the transition to lower cost/lower value-added routes to market approaches such as direct marketing channels, whilst others are in the process of doing so. At the same time, however, companies are searching for new ways to utilise and add-value through their indirect channels: e.g. by improving channel customer relationship management capabilities and packaging together solutions for particular market segments such as SMEs and less sophisticated or 'novice' buyers.

Figure 1 The 'Value-Added Offer' to 'Commodity-Offer' Continuum (Source Christopher *et al.*)¹⁵



Emergence of new routes to market / Opportunities to build direct relationships with consumers/end-users

In a number of sectors direct marketing channels such as the Internet, offer a cost-effective means of establishing a direct relationship with end-users. This relationship provides firms with an opportunity to acquire first-hand knowledge of customers' purchasing habits and requirements, which they can use to create a more individualised response.

By continually learning and responding to their changing needs, in a more effective manner than their competitors, companies are in a better position to build and maintain a competitive advantage. Electronic channels also provide a means by which companies can differentiate their offerings to their channels, and by inference, a means of strengthening their channel relationships. At the same time however, they also represent a significant threat to established channel structures and internal/external working relationships (See section 4.1.2).

Service competition

Against a background of declining product differentiation, companies in a number of sectors are increasingly having to look at the way they deal with their customers (Customer Relationship Management), and the quality of their customer service and support (including 'value-added services'), in order to achieve and maintain a competitive advantage. Inevitably, this has important implications for the way in which companies are going to market and for the role and function of their intermediaries.

Developments in IT, production technology and logistics

In some sectors, production technologies (e.g. flexible manufacturing systems) are enabling companies to cater for increasingly wider variations in customer demand, even to the extent of "mass-customising" products and services¹⁶.

At the same time, shorter production cycles and smaller batch production, coupled with fast logistics allow companies to reduce inventory levels throughout the supply chain. Both of these developments have important implications for the role and skills of intermediaries.

Technological convergence

For example, the convergence of printer, copier and fax technology is expected to bring about a gradual convergence in the activities of office equipment dealers and computer equipment suppliers. In practice however, the extent of this convergence may be limited by the continued demarcation of the responsibility within organisations for specifying and purchasing IT equipment and Office Equipment.

New product development/modification

Issues were raised in relation to *motivating* and *recruiting* channels to take on and support new business models and new/modified product offerings¹⁷. For example, several companies, notably in the Software and Financial Services sectors, were examining the potential for delivering their products and services via the Internet: i.e. the potential for electronic fulfilment. Because of the difficulties it had experienced in trying to convince its existing channels to adopt this new mode of operation, one particular software company was in the process of setting up an entirely new indirect channel. The companies existing channels were reluctant to make the necessary investment due to an apparent lack of trust in the supplier and a fear that electronic fulfilment was simply a precursor to disintermediation. Elsewhere, a manufacturer of communications hardware was experiencing problems in motivating its resellers to carry out market development and pre and post-sales support for its products. The company was looking at changes to remuneration structures as a possible means of overcoming this problem.

Competitive pressures

Companies in all sectors were concerned about the potential impact of competitive factors. For example, those in the life and pensions sector were concerned about the potential for further cost and margin pressures brought about by consolidation among intermediaries and the emergence of new players, such as low cost direct marketing operations.

Regulatory pressures

In the life and pensions sector the government is reviewing the current polarised system of distribution, whereby companies are forced to declare themselves as either tied agents (representing one company) or as independent financial advisers (who are required to consider the entire market). Furthermore, the government's desire to standardise financial products, introduce product league tables and improve value for money for consumers (e.g. by reducing product charges as in the case of stakeholder pensions) is likely to place further pressure on providers to reduce their marketing costs.

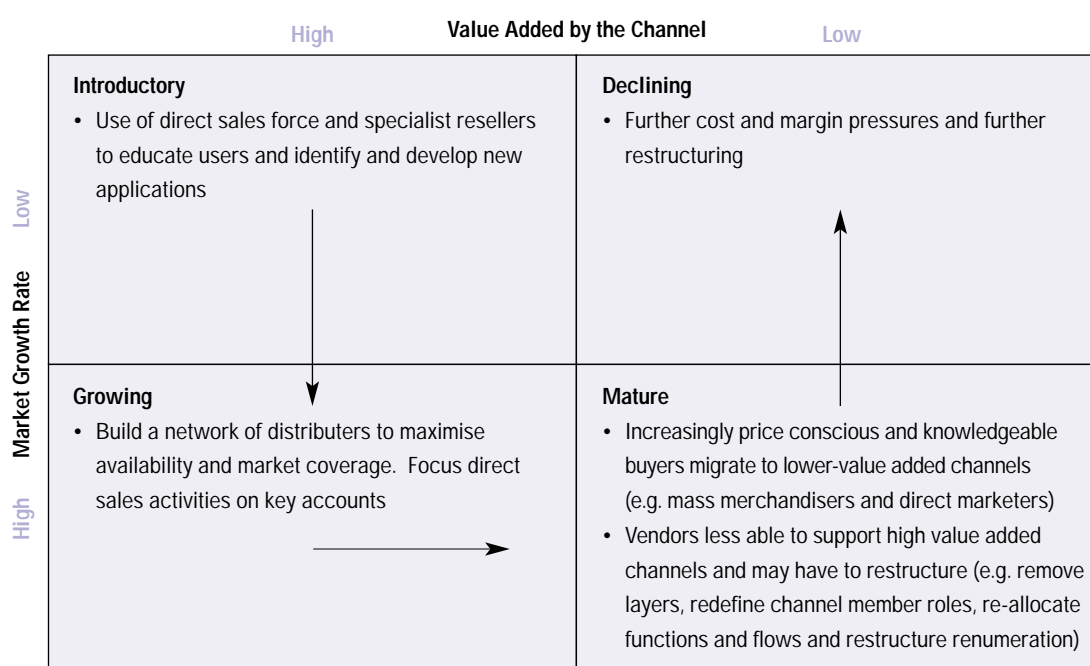
Opportunities for market expansion and development

A manufacturer of innovative communications equipment, for example, is attempting to make the transition from niche product-markets to mass-market appeal. The challenge for this company is to simplify the product and open up new channels of distribution.

Product/market maturity

A company's routes to market strategy needs to be adapted to take into account the evolution of its products and markets (See Figure 2, below). The PC market, for example, shows clear signs of maturity, with intense levels of competition and increasingly knowledgeable and price conscious customers moving toward lower value-added channels (e.g. supermarkets and direct marketing channels).

Figure 2 The Influence of Product/Market Evolution on Routes to Market Strategy¹⁸



Increasing rates of technological change (i.e. shortening product life-cycles)

One of the implications of shortening product life cycles is that firms have less time to adapt their channel strategies to accommodate changes in buyer-behaviour¹⁹. Furthermore, in more volatile product-market environments, it is often difficult to predict precisely how buying behaviour will change over time²⁰. To cope with these uncertainties, it may be necessary for firms to invest in a portfolio of routes to market options²¹.

Channels proliferation

Several organisations indicated that their routes to market had been introduced incrementally as a result of opportunistic expansion and the desire to maximise product availability, rather than as a result of careful planning and design. The inherent danger of such an approach is that channels are allowed to proliferate to such an extent that members lose motivation, conflict increases, activities are duplicated and mixed messages are delivered to the market place. The problem is likely to become particularly acute as markets mature. Faced with such a legacy, a number of companies were attempting to segment their channels according to their capabilities and sales growth potential. This was being done with a view to identifying their more 'attractive' or 'best-in-class' channels and delivering tailored partnership programmes to them (e.g. a logistics partner programme, a service partner programme and so on).

Changes in the balance of power among channel members

Concerns were expressed in the Financial Services sector (life and pensions) about the increasing power of intermediaries. The establishment of a direct route to market (e.g. via the Internet) offers one potential, albeit risky, strategy to counteract this power. At the same time, however, the Internet has the potential to significantly empower the consumer/end user (see section 4.1.2.1).

The need, or desire, to improve the efficiency and effectiveness of channel systems

Suppliers in some sectors are: 1) co-operating with distributors in order to re-engineer distribution processes, such as order processing and stock replenishment²²; 2) establishing electronic links to improve the two-way flow of information regarding order status and end user demand²³; 3) removing layers of distribution, such as the 'master-distributor'²⁴; 4) redefining the respective roles and functions performed by themselves and their indirect channels²⁵; and 5) allied to the previous points, restructuring channel remuneration²⁶. In the computer hardware sector, for example, a number of companies are experimenting with the idea of separating *physical flows* from *title flows*. Thus, for the purpose of speed and efficiency, the reseller does not take physical possession of the manufacturer's goods. Instead, the goods are shipped directly to the reseller's customer. The reseller then handles payment and invoicing in the conventional manner. This approach alleviates some of the costs to the manufacturer and reseller associated with carrying inventory (i.e. in terms of price protection and working capital requirements). It also enables the reseller to focus their attention away from 'box-shifting' and towards the provision of 'value-added' services such as installation and training. Nevertheless, an issue that may need to be resolved is that of accountability if anything goes wrong with delivery and/or payment.

4.1.2 Role and impact of electronic channels

Not surprisingly, the role and impact of electronic channels and in particular the Internet, emerged as a key issue from the research. On a general level, web based communications (Email and web-sites) can perform a broad spectrum of tasks ranging from creating awareness about a company's products and services, through to generating sales (e.g. selling off the web page), providing post sales support and reducing post purchase dissonance²⁷. They can also be used as a research tool. For example: 1) as a conduit for obtaining feedback about company, channel and product performance; and 2) when used in conjunction with electronic fulfilment, as a means of testing new products. The researchers identified a number of more specific contributions. In a supplier-to-channel context, these include:

Enhancing service and support to the channel

Extranet portals could be used to provide the channel with access to training materials (e.g. video streams), sales support materials (such as quoting tools, product specifications and applications data) and automated help systems for post sales support. Extranet facilities could also be used to enable the channel to monitor purchase order status, access accounting information and carry out various servicing tasks. In the financial services sector (life and pensions), the possibility was raised of intermediaries using Extranets to download policy information and to service group pensions schemes themselves (e.g. by adding new members to the scheme).

Improving communications and facilitating two-way information flow within the channel

For example, the use of Email to inform the channel of market developments, product introductions and changes to discount arrangements and the use of electronic links to give vendors access to point of sale (P.O.S.) data and end-user demand forecasts²⁸.

Reducing channel-servicing costs

For example, this could be done by substituting person-to-person contact with electronic contact and by providing links to enable the channel to carry out their own servicing tasks, such as obtaining quotations, checking order progress and downloading policy statements. This is a particularly important issue in the financial services (life and pensions) sector where providers typically deal with a large number of intermediaries. Furthermore, the introduction of new low-cost products such as stakeholder pensions, is forcing companies to look for significant selling cost efficiencies.

Improving channel efficiency and effectiveness

In the computer hardware sector the desire to reduce system-wide costs, and in particular inventory carrying costs (allowances, price protection, etc) has prompted a number of suppliers to re-engineer their distribution processes with the aid of IT. Thus, as noted in section 4.1.1, a number of companies are experimenting with the idea of separating *physical flows* from *title flows*. Thus, for the purpose of speed and efficiency, when a reseller receives an order, this is transferred electronically to the manufacturer. The manufacturer then ships the goods directly to the reseller's customer, thus reducing the need for inventory to be held within the channel²⁹.

Enabling companies to move away from a "speculation" (make-for-stock) model towards a "postponement" (make-to-order) model³⁰

Improved information flow (e.g. real time access to end-customer orders via EDI or Extranets), in conjunction with rapid-shipment logistics with flexible manufacturing systems, has the potential to enable suppliers (and distributors) to move closer to a 'make-to-order' model and to reduce the need for inventories throughout the channel system³¹.

Facilitating channel integration

Rather than disintermediate, a number of companies indicated that they would prefer to exploit their Internet capability in conjunction with, or on behalf of, their indirect channels. They discussed a number of strategies, including: 1) linking their web-sites to intermediaries' web-sites; 2) hosting intermediaries on their web-sites; 3) providing search tools to locate the end-user's nearest intermediary; 4) setting up and running a dedicated web-site for their channel's customers; and 5) reserving space on their web-sites for the channel's customers. It was felt that the provision of Internet and IT related services could become an important "value-added" element of a supplier's overall channel proposition.

The research identified similar opportunities in a supplier-to-end user (Key Account) context, such as the use of:

- Extranet portals: 1) to enable end-users to place incremental orders within the context of ongoing contracts ("straight re-buys"³²); 2) as a vehicle for delivering product upgrades (e.g. "electronic-fulfilment" of software updates); 3) to provide access to product support and automated help facilities; 4) to enable purchasing staff to obtain quotations and monitor order progress; 5) to enable finance staff to check account status; and 6) to reduce servicing costs.
- Email to deliver tailored communications regarding product developments and product upgrades.

In a supplier-to-end-user (small accounts/consumer) context, electronic channels provide a means of:

Establishing and maintaining a direct relationship

As indicated in section 4.1.1, the Internet provides companies in a number of sectors with the opportunity to identify, often for the first time, who their customers/end-users actually are and to acquire knowledge about their purchasing habits and preferences (i.e. *where* they buy, *what* they buy and so on). However, acquiring this knowledge does not have to entail *selling directly* to end-users: i.e. via the web page. Instead, a variety of web-based mechanisms can be used to establish *direct communication* and *ongoing dialogue* with individual customers, for example by: 1) inviting customers to register product ownership via the web; 2) inviting customers to subscribe to Email newsletters; 3) using Email addresses to inform the customers of product offers; and 4) inviting customers to provide feedback on a companies products or services via Email or the organisation's web-site. Furthermore, web tools can provide suppliers with a means of delivering additional benefits to customers: e.g. providing, via password entry, access to product updates, supplementary data, user/discussion groups and applications information.

Overcoming some of the costs and risks associated with operating through intermediaries

Selling directly may help to reduce supplier "transaction costs", such as the difficulties associated with monitoring and controlling the activities of third party resellers and the inherent vulnerability of suppliers to "opportunistic behaviour" by the channel (e.g. using confidential information from one vendor relationship to extract concessions out of another vendor/supplier)³³.

Fulfilling orders

In the financial services and software sectors in particular, there is considerable potential for an increasing number of products and services to be delivered electronically. Thus in principle, a life insurance policy or complete software package could be specified, purchased and delivered via the Internet. Nevertheless, the widespread usage and adoption of such methods is currently limited by factors such as excessive download times, security concerns and legal barriers.

Delivering tailored marketing communications

As noted earlier, Email provides companies with an opportunity to deliver personalised and tailored marketing communications on an ongoing basis.

Enhancing customer service and support

The Internet is already widely used by computer software companies to deliver product updates and by hardware companies to provide on screen help facilities. However, the potential value of electronic channels is far greater. Because of their interactive nature, they have the capability of enabling customers to take a much more active role in the specification and delivery of products and services and thereby create greater value for themselves. Furthermore, electronic channels can provide consumers with much greater control over the timing, frequency and content of communications that they receive from firms³⁴.

Counterbalancing the power of the channel

The more powerful party in a marketing channel relationship is often regarded as the party that has the greatest influence over, or who "owns", the consumer/end-user³⁵. Customer franchise is regarded as conferring a number of power sources on the owner: i.e. 'Reward', 'Coercive' and 'Referent Power'³⁶. Thus, in order to acquire greater power in their channel relationships, suppliers may be able to use electronic channels alongside more traditional "pull strategies" to build greater end-consumer franchise. However, the notion of being 'owned' by a company is perhaps something that would strike few chords among consumers!

Reducing distribution costs

For example, establishing a direct route to market via the Internet may enable a firm to reduce its dependence on branch networks and direct sales personnel.

From the foregoing points, it will become clear that electronic links provide an important mechanism for establishing, maintaining and strengthening relationships with channel members and end-users, by:

- Providing a means of establishing dialogue with customers as individuals rather than "communicating" with anonymous segments
- Enhancing the supplier's value proposition (through improved customer service and support)
- Creating "structural ties" between parties to supplement "social" and "economic ties" and, by extension, creating barriers to competitive entry and customer exit (see Figure 3, below)³⁷.

Figure 3 Levels of Relationship Intensity (Source: Berry and Parasuraman)³⁸

Level	Primary Bond	Marketing Orientation	Degree of Customisation	Potential for Competitive Advantage
One	Financial	Customer	Low	Low
Two	Social	Client	Medium	Medium
Three	Structural	Client	Medium to High	High

- Enhancing communications and information flow between the parties. According to Mohr and Nevin³⁹ "communications can be described as the glue that holds together a channel of distribution"(p36). Furthermore, a number of empirical studies have shown that effective communication is an important determinant of relationship trust and commitment⁴⁰.
- Fostering closer customer/channel interaction and co-operation in the production and delivery of products and services and thereby ensuring greater ownership and satisfaction with outcomes⁴¹.

4.1.2.1 Impact on consumers and end-users

As noted earlier, power in marketing channels is most often seen as residing with the party who has the greatest influence over, or who is perceived to 'own', the customer: i.e. normally the supplier or intermediary⁴². However, it would appear that interactive media, such as the Internet (and in the future Digital TV) are capable of transferring increasing levels of power to end-users or consumers⁴³:

- Internet search tools, for example, enable consumers and businesses to locate and compare a much wider range of products and prices. A by-product of this is that customers could become increasingly 'promiscuous' (i.e. less supplier/brand loyal) and more price conscious.

- In the future, search tools may take the form of 'intelligent agents' that enable users to locate products and services from a large number of suppliers within specific parameters⁴⁴. This could have a significant impact on the financial services industry and in particular the life insurance and pensions sector, where at present substantial 'information asymmetries' exist between providers and consumers⁴⁵. Furthermore the value of brands in such an environment could be significantly diminished.
- Interactive media have the potential to enable consumers and users to control to a much greater degree the content, timing and frequency of the communications they receive from suppliers⁴⁶.

4.1.2.2 Barriers and risks associated with electronic channel marketing

Despite the perceived benefits of electronic channel marketing, a number of factors need to be borne in mind:

- Internet usage and purchasing levels among UK consumers remain fairly low⁴⁷.
- Clearly not all customers will be willing to purchase via the Internet. Segmentation is therefore likely to be critical. Among the factors that are likely to limit the potential for direct selling and relationship building via the Internet are:
 - 1) The customer's need for assortment. Business customers are unlikely to welcome suppliers setting up separate Extranet portals for every one of their purchasing inputs;
 - 2) The customer's preferred mode of interaction: Thus customers may prefer a human interface as opposed to an electronic interface;
 - 3) The value that the customer places on the 'shopping experience' i.e. travelling to the store, browsing and so on;
 - 4) The level of risk/uncertainty that the customer perceives in connection with the purchase and hence their need for "value-added" services, support and advice;
 - 5) The level of the customer's IT literacy;
 - 6) The type of purchase. For example, whether it is a "New-Task"⁴⁸ involving an extensive search and evaluation of alternatives or a "Straight Re-Buy", where the customer simply purchases from the last known source⁴⁹. The latter may be more suited to electronic purchasing.

With regard to the notion of building closer relationships via direct marketing channels such as the Internet, first and foremost companies need to establish whether customers genuinely want to deal directly. Furthermore, they need to be clear about the type of relationship that customers actually desire and, where applicable, their underlying motivations for establishing direct contact⁵⁰. Mitchell⁵¹ makes the following pertinent observations, albeit in the context of direct marketing via the telephone:

Direct marketers of financial services may, for example, believe that because they can talk to a customer one-to-one over the phone, the relationship is a close one, pregnant with opportunities for cross-selling. How wrong they may be. For many consumers, the choice is driven solely by cool considerations of cost and convenience, a way of minimising their financial and emotional investment in a low interest, low involvement purchase.

Mitchell⁵²

- The value of the customer to the organisation also needs to be considered, such as whether they are considered as a key or minor account. Thus, an electronic approach may be reserved for minor accounts where frequent face-to-face contact is considered unnecessary or undesirable.
- The nature and characteristics of the product will also have a bearing on the suitability of the Internet as a direct marketing channel (e.g. level of customisation, maturity, complexity and so on). Thus, a highly complex product may be considered unsuited to electronic channel marketing. However, it is not inconceivable for products to be designed or adapted to fit the channel, as opposed to the channel being designed to fit the product. Companies such as First Direct and Egg in the financial services sector have aptly demonstrated the potential for such an approach.

- There is potential for any Internet activity (even awareness web-sites) to be perceived as a threat by indirect channels. This may weaken channel relationships and, in severe cases, may result in channel members switching their allegiance or ceasing their support.
- Difficulties may be encountered when attempting to assimilate an Internet based operation into an existing channel arrangement, for example:
 - 1) Staff attitudes may cause inertia. A common problem encountered by the companies interviewed for this study, was that sales people were reluctant to hand over control of some of their accounts to the new direct marketing channel operations;
 - 2) The legacy of past investments in systems, people and infrastructure will need to need to be overcome;
 - 3) Conflict may arise internally (i.e. between channel groups) as they compete for funds and customers.
- Conflict may arise between channels. For example, between Internet operations, direct sales and indirect channels.
- The significant potential to lose business in any transition, or switch from indirect to direct marketing channels. For example, customers may not be able, or may not want, to make the switch from an existing channel, and/or the channel may cease its support for the supplier and its products and services.
- Dealing directly with consumers/end-users can create additional problems in terms of coping with large numbers of small orders.
- The costs of supporting an Internet based direct marketing operation should not be underestimated (e.g. costs of managing and maintaining web-sites, customer databases, raising awareness and interest through advertising and promotions). Amazon, for example, has an A&P budget of circa \$50 million.
- Allied to the above, a high volume of transactions may be required to make a direct operation economical (i.e. to achieve the necessary economies of scale).
- 'Live-agents' are likely to be needed to back up an Internet operation and to cater for customers who get into difficulty or need additional help and support.
- Consideration needs to be given to the need to recruit or re-deploy staff to support an Internet based operation (e.g. staff with specialist direct and database marketing skills).
- The Internet still suffers from a number of technical problems, such as web site congestion, excessive download times and security problems (perceived or otherwise)⁵³.
- The long-term prospects for the Internet are far from certain, particularly in the light of new and emerging technologies such as digital TV, wireless/portable communications and ADSL (Asymmetrical Digital Subscriber Line)⁵⁴.

4.1.2.3 Strategies for managing the transition to electronic channel marketing

The majority of interviewees recognised the importance of making at least some level of investment in electronic channel marketing, whether that is to reach consumers or business customers. Given the issues and risks described above, several strategies to manage the transition were discussed:

- Setting up a telephone based direct marketing operation as an interim phase and using this operation as a platform to test out technology and to familiarise external sales staff with the process of working with direct marketing channels.
- Using incentives and training to encourage sales personnel to work with direct marketing channels. This could include compensating sales staff for orders received from their accounts regardless of which channel actually takes the order (direct or indirect).
- Running direct marketing channels alongside existing indirect channels as an interim step. Time will be needed to allow customers/end-users to make the change to the new channel and get used to dealing with the organisation in this manner. Also, time will be needed for the organisation to make the necessary adjustments to internal working practices.

- Allied to the above, indirect and direct channels need to be “integrated”: i.e. as far as possible, each channel type should be allocated a distinct function or role within the context of the overall selling, pre and post-sales support process⁵⁵. This is often a difficult to achieve (See Section 4.3).
- Investing on a small scale. For example, setting up a web site for awareness purposes only and using it to gauge channel potential for a larger scale Internet based direct marketing operation. Web-site hit rates can be used to give an indication of the likely popularity.
- Exploiting electronic channel capabilities and resources in conjunction with, and on behalf of, indirect channels. For example:
 - 1) Setting up and running a web-site for the channel;
 - 2) Providing content on the channel members web-site;
 - 3) Hosting intermediaries on the supplier's web-site;
 - 4) Providing Extranet facilities for the channel and the channels customers; and
 - 5) Linking supplier and channel web sites. Thus, customers could be given the option of buying direct where they require a single item or don't need any support and advice. Where they require the latter, links, or search tools, could be provided to enable the customer to locate appropriate intermediaries or resellers.
- The 'green-field site' option: setting up an entirely new operation to manage electronic channels and direct business.

It is worth emphasising that whatever strategy is followed, it is important that existing (indirect) channels are communicated with on a regular basis and kept informed of plans and developments.

4.1.3 The evolving role of indirect channels

The need for intermediaries has traditionally been justified on the grounds of economic efficiency and on the principles division of labour. Alderson⁵⁶, for example, argues that intermediaries:

- Create time, place and possession utilities (e.g. they help to reduce the number of market place exchanges or transactions);
- Carry out various 'sorting activities' to 'bridge the gap' between manufacturer outputs and end-user requirements. Thus, intermediaries are said to:
 - 1) 'Sort out' (i.e. categorise/grade products);
 - 2) 'Accumulate' (i.e. bring together stocks from a number of different sources);
 - 3) 'Allocate' (i.e. break bulk) and
 - 4) 'Assort' (i.e. bring together a range of (complementary) goods and services).
- Reduce the costs of distribution by enabling transactions to become standardised or routine (e.g. by eliminating the need for goods and services to be individually specified and for the terms and conditions of sale to be separately negotiated, prior to each transaction); and
- Reduce marketplace uncertainties and facilitate the search process for both buyers and sellers: i.e. they enable consumers to locate suitable suppliers and allow buyers to locate suitable customers.

The validity of some of these arguments has been challenged, particularly by developments in production and communication technologies and logistics (e.g. flexible manufacturing systems, fast logistics, and the Internet)⁵⁷. Direct marketing channels make it possible for companies to reach large numbers of widely dispersed customers at a fraction of the cost of a direct sales visit, thus challenging Alderson's “contractual efficiency” argument⁵⁸. Similarly, it is claimed that flexible manufacturing systems make it possible for manufacturers to produce in smaller batch sizes, thus challenging the need for intermediaries to perform the task of breaking bulk⁵⁹. Furthermore, in some sectors with the advent of electronic fulfilment (e.g. computer software), the need to use intermediaries to manage physical flows is also being challenged.

Nevertheless, the interviewees still perceived as important the need to use intermediaries to provide customers with an *assortment* of products and services. In some market segments, customers may prefer to buy certain categories of products as part of packaged solution (e.g. computer peripherals are often purchased as part of a home computing solution). Similarly, customers may want to source all of their requirements for particular product categories from a single supplier (e.g. office equipment may be purchased from a single source).

Despite the claimed benefits of flexible manufacturing systems, the ability to use intermediaries to handle small orders was frequently seen as an important issue. Even in the case of customers designated as key accounts, it was pointed out that it is often necessary to satisfy low volume orders through indirect channels. The key issue for companies in these situations was seen as not *who* fulfilled the order, but *how* these low volume requirements could best be managed, to ensure that their customers did not simply go to a local distributor and purchase a competitor's product(s).

In addition to the above, interviewees identified a number of other important benefits provided by intermediaries, such as:

- The provision of specialist advice (particularly for those products and services which involve high levels of perceived risk such as life insurance and pension products);
- The provision of other forms of pre and post sales support, including installation and maintenance services;
- The provision of local knowledge;
- The provision of a "shopping environment" and an opportunity for customers to touch, feel, try and test products;
- The provision of personal attention and the reassurance of interpersonal contact; and
- The ability to support specialist/niche applications. For example, a manufacturer of computer hardware commented on how difficult it was for a direct operation to provide the necessary resources and applications expertise to support specialist solutions for small to medium sized enterprises (SMEs) (e.g. Doctors Surgeries).

4.1.3.1 Emerging channel roles and business models

In the light of the above, interviewees in a number of sectors indicated that their existing indirect channels needed to re-focus and adapt. For these organisations, this may mean moving towards:

- A 'functional specialist' role. Thus, rather than take responsibility for all the traditional channel functions and flows⁶⁰, as is common in conventional hierarchical channel systems, the channel member focuses on one particular activity⁶¹, such as:
 - 1) Order fulfilment/logistics (on a global, regional or local basis);
 - 2) Pre or post sales support;
 - 3) Applications support;
 - 4) Financial administration and the provision of credit.
- A 'service provider' role, where there is less emphasis on 'box-shifting' and more on packaging together products and services for particular vertical markets/market segments: i.e. a narrowing of product-market focus to cater for segments of the market that need specialist advice and support such as SMEs. This may be accompanied by a reduction in responsibility for managing physical flows.
- An 'outsourcing solutions' provider role - offering a range of services including contract assembly services, customer relationship management services and so on.
- A 'network-solutions' provider, working as a part of a network of companies to create solutions to particular customer needs⁶². The network could encompass a wide variety of partners, including suppliers of complementary products, training companies, end-user influencer organisations and other resellers. It could be formed around a particular project or sales opportunity, or be a more permanent arrangement.

Allied to the above, there is a need for indirect channels to reappraise their core skills/competencies and decide how best they can add value. The companies that are likely to be most at risk are those that add little in the way of value and merely act as 'go betweens'⁶³.

Whilst technology, and especially the Internet, is undoubtedly forcing companies to reconsider the role and structure of their routes to market, and in some instances to disintermediate, it is also resulting in the emergence of new or modified forms of intermediary. Thus, in some cases, traditional "bricks and mortar" retailers are adding e-commerce activities to their operations (a process which has been termed "re-intermediation" by a group of researchers from Brunel University)⁶⁴ and entirely new forms of intermediary are being created around particular consumer interests, life-stage and life-cycle events (e.g. holidays, house purchase, childbirth - www.babycenter.com), (termed "cybermediation" by the aforementioned authors)⁶⁵. One writer refers to these new forms of intermediary as "metamediaries"⁶⁶.

4.1.3.2 Issues to be managed

Managing the transition to these new/evolving roles is likely to be a difficult and complex process⁶⁷. Among the issues that will need to be managed are:

- Winning the hearts and minds of existing channels, for example:
 - 1) Overcoming emotional/psychological attachments to existing business models;
 - 2) Persuading channels to make new investments and write off past investments;
 - 3) Overcoming fear and uncertainty about the future⁶⁸.

The range of influence strategies available to suppliers will depend on the balance of power in the channel ('brand-power' vs. 'channel power'⁶⁹). However, coercive influence attempts (threats, legalistic pleas etc) are likely to backfire in the long term (See section 4.4):

- Recruiting new channels.
- Ability of the channel to invest in applications support skills etc, - particularly against a background of low margins from 'box-shifting'.
- The need to restructure compensation to reflect any changes in the contribution of channel members to channel tasks and provide an incentive for the channel to invest.
- The need to educate and train the channel (improve professionalism and win support).
- Winning the hearts and minds of those inside the vendor/supplier organisation, for example:
 - 1) Training, educating and motivating the direct sales force to work with indirect channels. For example, they may become de-motivated as they contemplate their future. Remuneration changes may be required to compensate the sales team for introducing business, which is fulfilled by external partners;
 - 2) Facing up to the legacy of past investments in inappropriate product-based computer systems, human resources and infrastructure. Moving to a new business model may require redundancy, redeployment and outsourcing. Companies in the insurance industry have been particularly affected by this issue in recent years; and
 - 3) Dealing with emotional attachments to current business models and, in some cases, the need to sever long-standing interpersonal relationships between internal staff and channel personnel.

4.1.4 The evolving role of the salesperson

In parallel with their indirect channels, interviewees indicated that their direct sales teams needed to refocus and move towards:

- A greater emphasis on key account management;
- Less emphasis on *selling to* the channel and a greater emphasis on supporting and developing the channel to deliver better value to end-users; and
- Less emphasis on account selling and more emphasis on business development and relationship management⁷⁰.

4.1.5 Fulfilment strategies

In relation to the process of fulfilment, the following developments were noted:

- Channel assembly/badge engineering;
- Re-engineering functions and flows to enable direct interaction with the consumer/end-user whilst retaining the involvement of the indirect channel. For example, a company in the computing sector described how it was moving towards an arrangement whereby its indirect channels would establish the initial end customer relationship and provide various services for which they would receive a fixed fee. The contract of sale, however, would be between the supplier and end-user, and the supplier would manage the entire process of order fulfilment;
- Electronic fulfilment: i.e. the delivery of software, services and financial services via Internets/Extranets;
- Use vs. ownership. For example, a company in the computing sector was exploring the possibility of supplying its products on a subscription/rental basis, thus providing a platform for an ongoing relationship and smoothing out peaks and troughs in demand.

4.2 Channel strategy and design

Formulating a channel strategy involves conceptualising how (internal and/or external) resources are to be used to create efficient and effective linkages between a manufacturer/service provider and its ultimate consumers/end-users⁷¹. It involves decisions about:⁷²

- Which channel functions and flows are to be allocated to, or shared with, external intermediaries and which activities are to be performed internally;
- The type of channel or intermediary to be used (i.e. direct sales force vs. reseller partner);
- The variety of channels to be used (i.e. single or multiple routes to market);
- The length or directness of the channel, i.e. the number of levels or tiers of distribution;
- Channel intensity (exclusive, selective or intensive) - i.e. the number of intermediaries at each level or within each geographical area;
- The respective roles and responsibilities of channel members (e.g. with regard to after sales service, market development activity and so on); and
- The method of channel co-ordination (i.e. vertical integration/ownership; contractual; administered; or conventional/market based).

A variety of internal and external factors are likely to affect these decisions, for example (See also Figure 4):

The nature of a company's marketing objectives

A manufacturer of video communications equipment, for example, is attempting to forge relationships with audio/visual channels as part of its market development efforts.

The customer's need for specialist advice and support

In the financial services sector, product complexity and the consumer's requirement for advice and 'hand-holding' are seen as factors limiting the potential for selling life and pensions products via direct marketing channels such as the Internet. Similarly, in the computing sector, the need to provide installation and maintenance services, 'packaged solutions' and specialist applications advice to particular market segments (e.g. SMEs) favours the use of indirect channels.

The customer's desire for convenience/one-stop shopping

Buyers of office equipment may value the ability to meet all their requirements from a single source, thus limiting the potential to sell direct.

The "solutions sell" vs. "component sell"

A copier manufacturer, for example, intent on providing large end-users with outsourced document solutions, may need to align itself with a variety of other companies, including resellers, installers, maintainers, consultants, trainers and manufacturers of complementary products (e.g. printers, PCs, etc).

The customer's preferred mode of interaction

There is little point attempting to win over customers solely via the Internet when what they actually value is face-to-face interaction, the opportunity to 'try before they buy' and the actual 'shopping experience'.

Intermediary skills and availability

An organisation in the office equipment sector had decided to set up its own intermediary network to overcome the perceived weaknesses of existing office equipment dealers. Ex-company employees initially staffed this network, thus also ensuring a relatively high level of channel commitment.

Channel support and motivation

Some companies had experienced difficulties in attempting to persuade their channels to take on new roles, such as electronic fulfilment and the provision of specialist services. Elsewhere, companies had experienced problems motivating their channels to follow up sales leads and provide satisfactory after-sales service. To overcome these problems, a number of them were looking at ways in which compensation methods could be modified to encourage the desired behaviours. Others, however, were considering more radical solutions such as setting up an entirely new route to market.

Company core capabilities and competencies

An organisation in the software sector had chosen to outsource a large part of its customer interface (inbound and outbound telesales, after sales support, etc) to third parties so that it could focus its resources on software development. Similarly, an insurance company had chosen to outsource the majority of its customer management operation to affinity groups, who also 'branded' the company's products. This strategy provided the company with a way of limiting the impact of the poor public perception of the insurance industry. Furthermore, it enabled the company to focus on its core skills in the areas of risk carrying and management.

Internal inertia

A number of companies that had evolved around a policy of distributing exclusively through external intermediaries were having difficulties adjusting to competition from direct marketing operations.

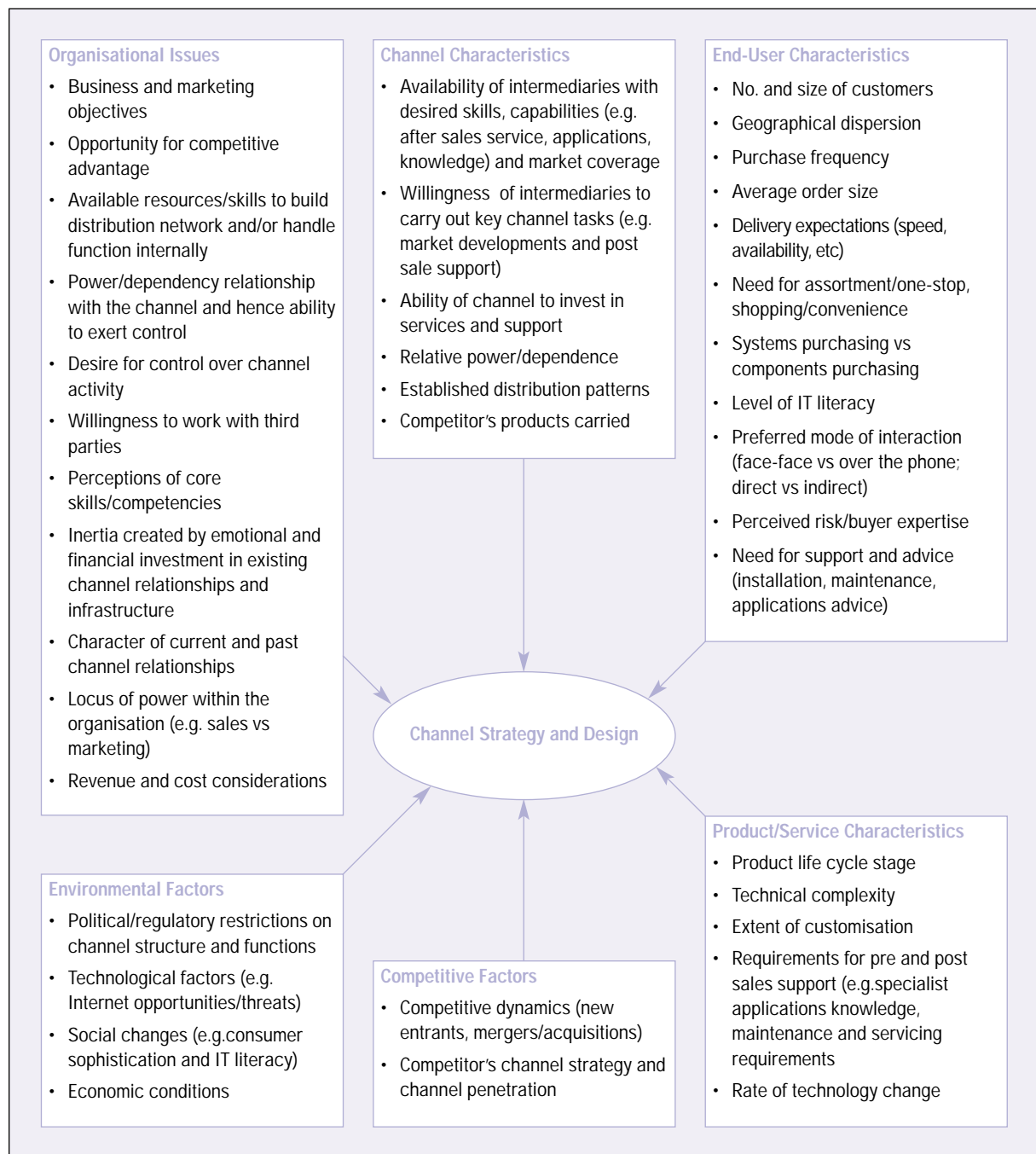
Existing distribution patterns

In order to reach particular customers it may be necessary to operate through established networks of 'preferred' suppliers. Thus, a manufacturer of office equipment pointed out that some of its key accounts had preferred distributors from which they sourced the majority of their office equipment supplies.

Environmental factors

In the life and pensions sector, the 1986 Financial Services Act places restrictions on the activities and roles of intermediaries, stipulating that they either tie to one provider or act as an Independent Financial Adviser (IFA). As an IFA, they are required to consider the whole market and act as the consumer's buying agent, not as an agent for the seller. The 1986 Act also places certain restrictions on the way in which the provider and IFA interact. For example, a provider cannot carry out a lead generation campaign on behalf of an IFA and cannot use any financial incentives, other than straightforward commission payments based on the sale of policies.

Figure 4 Some Factors Affecting Channel Strategy and Design⁷³



According to Cespedes⁷⁴ channel decision-making is also likely to be shaped by the need or desire to:

Erode a competitor's market share/penetrate a competitor's distribution network;

Defend existing channels against competitive encroachment; and

Strengthen relationships with, and their value to, existing distributors; especially those channels that the company knows will be important routes to market in the future.

This may necessitate building up an assortment or "critical mass"⁷⁵ of product/service offerings to meet the requirements and secure the support of their distributors. Some of these products or services may not be particularly profitable, but nevertheless may be required to provide a full line, and prevent competitors from making inroads into the distributor's business.

Also, recognising that distributors provide an important conduit for launching and developing the market for new products, it may be necessary to “fit products to channel capabilities and needs rather than channels to products”⁷⁶.

Whilst channel strategy and design will inevitably be a balance between the above considerations, it is essential that channel decision-making is primarily “market-driven” and not “company-driven”.⁷⁷ In other words, channel systems need to be designed and, where necessary, modified to reflect the anticipated requirements of an organisation's target markets: that is, the way that end-users actually buy, or could realistically be persuaded to buy the service levels they require, and value that they seek.⁷⁸ Stern and Sturdivant⁷⁹, offer a useful framework for designing such a system (See Table 3, below).

Table 3 Designing a Customer-Driven Channel System (Source: Stern and Sturdivant, quoted in Hutt and Speh^{80,81}).

Process	Activity
Step 1: Determine end-user requirements	Assess desire for: advice and support; installation and maintenance; locational convenience; product demonstration; personal contact/relationships; one-stop buying; depth of assortment; packaged "solutions" vs. components; and the whole range of possible services
Step 2: Evaluate potential intermediaries	Assess which types of intermediaries are possible, including direct sales
Step 3: Analyse costs	1) Is it feasible for the organisation to satisfy all customer requirements? 2) What types of supplier support are required? 3) What are the costs of support systems for each channel alternative?
Step 4: Specify constraints - create the 'bounded' system	Obtain management input on key constraints and company long-term objectives. Specify the channel structure based on these constraints
Step 5: Compare options	Compare the "ideal" systems specified by customers with the "feasible" system based on constraints and objectives. If an existing channel is being used, compare it with the ideal and feasible systems
Step 6: Review 'pet' constraints and assumptions	Where necessary, bring in outsiders to challenge assumptions
Step 7: Evaluate gaps	Analyse the underlying reasons for any gaps between the "ideal", "existing" and "feasible" systems
Step 8: Prepare to implement	Modify the "ideal" system in accordance with the finalised objectives and constraints Consider barriers to implementation (staff, structure, culture, attitudes, systems, management style and skills)

Anderson *et al.* offer a far less prescriptive approach⁸². Whilst they agree that channel design should be market driven, they point out that particularly in volatile market environments, it is often difficult to predict precisely how customer behaviour purchasing patterns will change over time. To manage the inherent uncertainty and risk associated with such environments, they argue that rather than devote time to exhaustive analysis and planning, companies may need to invest in, and experiment with, a portfolio of different routes to market *options*. Once market trends become clearer, companies can then decide which channel options to: 1) sell-off; 2) drop; or 3) invest in further⁸³. Furthermore, they stress the importance of placing channel design decision in the context of how a company intends to compete in the market place: i.e. its competitive strategy.

4.2.1 Information based channel decision making

Following on from the previous point, it is essential that channel decision-making be based upon an up-to-date understanding of end-user markets and channel characteristics. Cespedes points to a need for a "strong field orientation", regular field visits by channel management personnel, and staff exchanges to ensure that this knowledge remains current⁸⁴. The potential value of the latter is illustrated by the following quotation:

An established policy for decades at Square D has been its "counter days" program, in which its field salespeople must regularly spend a day at a distributor "working the counter" - answering customer questions and demonstrating Square D products. This program provides Square D with ongoing information concerning different distributors' performance, capabilities and inventory levels, as well as important information concerning evolving end-user requirements.

Cespedes⁸⁵

It was clear from some of the interviewees that their organisations lacked sufficient knowledge and understanding about their end users and lacked a strong end-user orientation. In particular:

- Some companies were unable to identify who their end-users were, where they purchased, how satisfied they were with the companies products, how they used the these products and so on;
- Companies relied heavily on feedback received through the channel and hence the channel's interpretation of market developments and trends.

In addition to personnel exchanges of the kind described by Cespedes, interviewees suggested a number of other strategies that could be used to improve end-user intimacy, including:

- 1) Third party research;
- 2) Leveraging the relationship with the channel, using financial incentives (i.e. better discounts if they feedback customer information) and using contractual terms to gain access to customer databases/P.O.S. information;
- 3) Joint product development activity and cross-organisational team working;
- 4) End-user product registration cards and electronic product registration;
- 5) End user loyalty schemes;
- 6) Joint sales visits and customer seminars (i.e. with the channel);
- 7) Joint direct and database marketing activities (i.e. with the channel);
- 8) Providing channel customers with access to specially reserved areas on the supplier's web-site (using password access);
- 9) Independent sales visits, direct and database marketing activities (e.g. carrying out direct sales visits whilst still routing sales via the indirect channels);
- 10) Customer feed-back "hot-lines";
- 11) Feedback via web sites.

4.2.2 Channel: customer or partner?

Among the companies, there was also a tendency to regard the channel, and not the end-user, as the ultimate customer. As the following quotation aptly demonstrates, companies need to regard their channels not as their customers, but as their *partners* and the end-user as the driver of both of them:

Until you stop thinking about the retailer as the customer and start thinking about them as part of the process, you're going to be delivering the wrong kind of products. Sears Roebuck is a great example. We developed products to sit on their floors in competition with other products that were sitting on their floors. If they said "I want this washing machine with three whistles and two bells, and we want it to be pink", we gave it to them. Little did we know that the customer (end user) didn't want machines with whistles. Today we don't treat each other as customer/supplier. We see ourselves as partners trying to solve a common need.

(David Whitwam, CEO of Whirlpool)⁹⁶.

It should be pointed out however, that whilst developing a partnership with channels is in many instances a worthwhile objective, it is not appropriate in every situation. As alluded to earlier, a more transactional short-term approach to channel management orientation may be necessary, given that in uncertain market environments companies may need to invest in a portfolio of routes to market options and maintain the freedom to liquidate some of those options at some point in the future. In other words, companies need to be cautious and consider their situation carefully before making long-term commitments to their channel members.

4.3 Managing multiple channels

Multiple channel marketing systems are becoming increasingly prevalent, particularly with the advent of the Internet and competition from direct marketing operations. Such systems are claimed to offer a number of benefits, including reduced risk, improved market coverage, lower costs and the ability to tailor marketing approaches to particular market segments⁸⁷. At the same time however, they also present significant challenges in terms of:

- Managing the inherent conflict and overlap within the channel network (i.e. inter-channel conflict);
- Achieving a balance between maximising market coverage and minimising conflict; and
- The potential for channel groups inside an organisation to come into conflict as they compete for resources and/or customers.⁸⁸

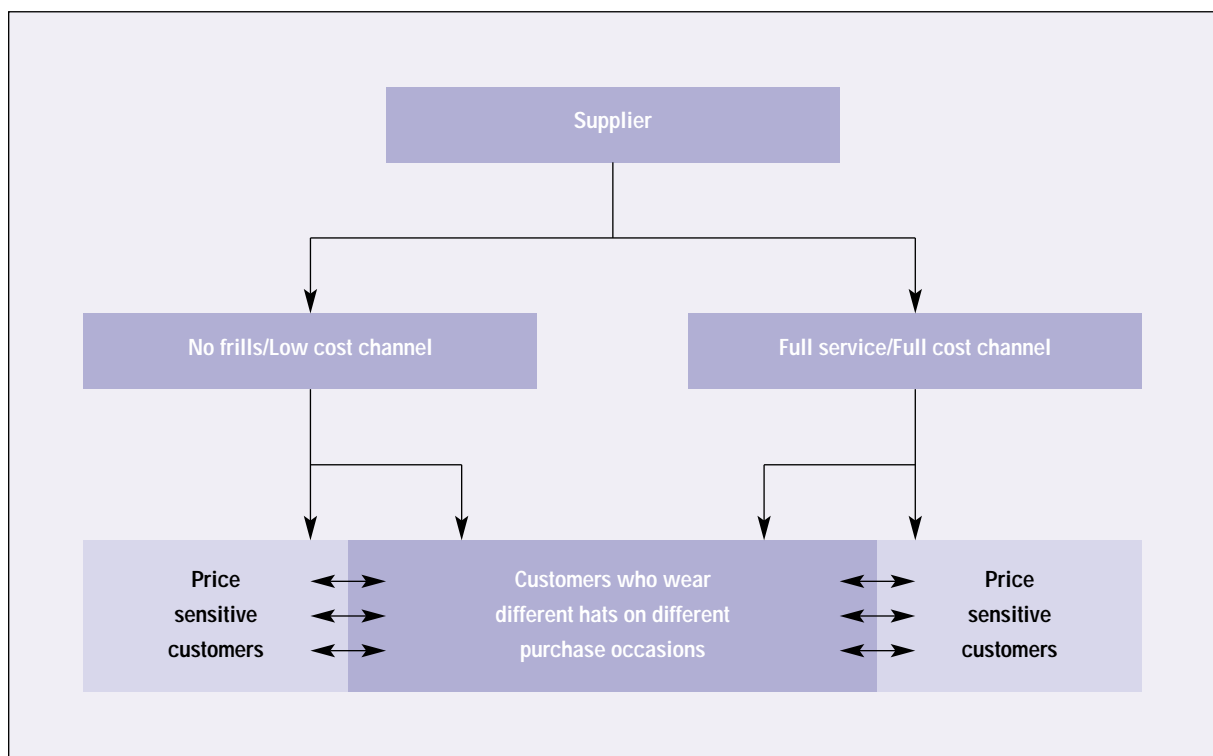
The companies had employed or considered a variety of strategies to mitigate the problem of inter-channel conflict, including⁸⁹:

Assigning channels to specific market segments or customer groups

(E.g. using direct marketing channels to target transactional/price sensitive buyers and value added resellers to target customers requiring specialist applications support).

In practice, this is often difficult to achieve because of the tendency for some customers to patronise more than one type of outlet over-time or on different purchase occasions (see Figure 5, below)⁹⁰. Thus, for example, customers may switch channels as they become more knowledgeable about market offerings, or do so in order to meet different buying requirements (e.g. engineering vs. production). Furthermore, as Anderson *et al.* note: "In some businesses, presales service is a public good that customers can avail themselves of without making a purchase. For example, a customer can get a full-function demonstration at a computer speciality store and then buy the product from a low-cost mail-order retailer"⁹¹. Therefore, allocating channels to segments, tends only to be effective when accompanied by genuine differences in products and/or service outputs, and differences which are actually *valued* by customers.⁹²

Figure 5 Difficulties with Multiple Channels (Source: Anderson *et al.*⁹³)



Differentiating products and/or service levels by channel

Again, this can be difficult and/or costly to achieve. For example, an organisation in the financial services sector pointed to the reluctance of its claims processing department to tailor service levels to the needs of particular channel members and thereby sacrifice functional efficiency. This provides an illustration of how functionally based organisation structures can sometimes inhibit effective channel management.

Differential pricing by channel

Companies stressed the importance of ensuring that their direct marketing channels didn't undercut their indirect channels. These considerations took the form of either implicit or explicit 'rules of engagement' between supplier and channel.

Assigning individual accounts to specific channels

(E.g. managing key accounts exclusively via the direct sales channel).

This can be problematic however, where there is a wide variation in order volume or size. Thus to manage small order requirements, it may still be necessary for key accounts to order via indirect channels.

Modifications to rewards and incentives

To encourage co-operation between their direct sales personnel and their indirect channels, several companies had instigated a policy of compensating their sales staff for all orders received from their accounts, assigned to them regardless of whether these orders are taken by the sales staff themselves or by an indirect channel.

Creating a "hybrid" marketing channel system⁹⁴

This involves using different channels to perform distinct functions within the context of an individual sale.⁹⁵ Thus, for example, a direct marketing channel may be used to generate leads; the direct sales channel to make the sale, and an external distributor to fulfil the order. Therefore, individual channel tasks and functions are allocated "horizontally" rather than "vertically" as in conventional, hierarchical marketing channel systems (see Figure 6 next page)⁹⁶. The idea is that different configurations can be established for different sizes of customer or market segments, using combinations of the same basic 'building blocks'. Whilst these systems appear very attractive, they are often complex to co-ordinate and manage, particularly for less powerful channel members: the sale is only as secure as the weakest link in the hybrid channel chain⁹⁷. One of the biggest challenges is likely to be compensation:

Because the channel member dealing with the customer no longer performs all channel functions, it cannot expect to receive the traditional margin or commission. Ideally channel members are compensated only for the functions they perform. But herein lies a catch....Free rides can abuse their position by cutting corners in their responsibilities and the most valuable player often has to bear the cost. (Whereas) In the traditional vertical system, poor performance correlated directly with poor sales and therefore lower margins.

Anderson *et al.*⁹⁸

Managing the inherent "hand-offs" of information between channels is also likely to be problematic. One manufacturer, for example, had experienced difficulties encouraging its indirect channels to act on sales leads that were passed to the channel following a series of lead generation campaigns.

Figure 6 An Example of a Hybrid Channel System (Source: adapted from Moriarty and Moran⁹⁹)

	Lead Generation	Qualifying Sales	Presales	Close of Sale	Fulfilment	Post Sales Service
Direct sales						
Distributors						
Dealers and VARs						
Tele-channels						
Internet						

Effective communication and education were also perceived to play an important part in limiting inter-channel conflict. In particular, it was pointed out that:

- Channel members need to be made aware of their respective roles and responsibilities in terms of their customers, market segments served, product/service positioning, sales tasks and channel functions¹⁰⁰. They also need to be kept informed of changes to channel strategy, especially regarding the introduction of new channels;
- The "rules of engagement" between manufacturer and indirect channel need to be made clear; and
- Direct sales personnel need to be trained to work with indirect channels and direct marketing channels.

As regards managing internal conflict, the following strategies were discussed:

- Structural changes to bring channel groups closer together to improve communications and encourage the pooling of ideas;
- Changes to responsibility accounting and incentives to encourage co-operation rather than competition between channel groups;
- The need for super-ordinate channel objectives;
- The creation of a structure for channel(s) management, with clear responsibility for managing the overall channel mix.

In the end, managing multiple channel systems is a balancing act and as one interviewee put it, "it requires a lot of tap dancing". The following quote from Magrath and Hardy¹⁰¹, aptly sums up the delicate nature of the task:

Marketers in multi-channel systems must possess the finesse of the orchestra leader to get the most from the talents of considerably different channel types. Each is part of the same symphony but each follows a separate score. Co-ordination, communication and sensitivity to all the different players can prevent deviations from destroying the harmony.

4.4 Managing channel relationships

Based on a synthesis of the literature and interviews, the following interrelated factors would appear to contribute positively to the successful management of channel relationships:

Building a relationship based on an atmosphere of commitment and trust

Empirical research suggests that trust and commitment are key characteristics of successful channel relationships¹⁰².

They have been associated with a number of benefits and outcomes, for example:

- Trust and commitment have been shown to directly influence the level of co-operation in a channel relationship¹⁰³.
- Trust has been shown to influence both channel member commitment and the way in which channel partners perceive conflict¹⁰⁴. Trusting distributors are less likely to view altercations as dysfunctional and tend to be more tolerant of mistakes and indiscretions by their suppliers¹⁰⁵. As Kumar¹⁰⁶ notes:

It creates a reservoir of goodwill that helps preserve the relationship, when as will inevitably happen, one party engages in an act that its partner considers destructive (e.g. setting up a direct channel)...trusting retailers tend to be understanding and blame competitive conditions, whereas distrustful retailers tend to hold manufacturers personally responsible.

Kumar¹⁰⁷

- Based on a number of studies, Kumar¹⁰⁸ also suggests that trusting distributors (i.e. those displaying high as opposed to low trust in suppliers) are more likely to:
 - 1) Perform better (as perceived by suppliers);
 - 2) Display greater source loyalty;
 - 3) Share information with their suppliers;
 - 4) Invest in, and dedicate resources to, the relationship; and
 - 5) Accede to supplier's requests.
- Committed distributors have been shown to exhibit lower intentions to sever their relationships with suppliers¹⁰⁹. In a study of IFA-Insurance company relationships, Hanmer-Lloyd and Hopkinson found that even when faced with a more attractive offer from a competitor, committed IFAs would rather negotiate around the price/product package with their 'preferred insurer' than sever or do anything to weaken that relationship¹¹⁰.
- Relationships in which distributors show a high level of "*affective commitment*" (i.e. maintain the relationship because they want to) are likely to be superior to those in which distributors exhibit high levels of "*calculative commitment*" (i.e. where they are effectively 'tied-in' and maintain the relationship because they have to)¹¹¹. The former have been shown to be associated with: 1) higher intentions to remain within a relationship; 2) better performance (as perceived by the supplier); 3) a greater willingness to make investments into a relationship; 4) less inclination to engage in 'opportunistic behaviour' (e.g. providing false information in order to get support from a supplier)¹¹².

It will be recognised that in some situations trust and commitment may be difficult to achieve, particularly where a supplier or distributor works with competing brands or where there is a high degree of conflict due to dual or multi-channel strategies. Regarding the former, an insurance company who had developed partnerships with competing affinity groups stressed the importance of giving confidentiality assurances and creating "Chinese Walls" between support operations.

Effective, two-way communications at multiple levels between channel and supplier

The importance of communication was emphasised by a number of interviewees and in particular:

- Making sure there is constant contact at multiple levels between supplier and channel organisation;
- Exchanging market intelligence;
- Communicating goals, objectives, expectations and requirements;
- Keeping each other informed of, and explaining the logic behind, plans, programmes and activities - avoiding surprises!;
- Involving resellers throughout the process of channel decision making, even at the early stages of conceptualisation;
- Encouraging feedback (e.g. obtaining feedback about plans and programmes, listening to the problems faced by distributors and discussing market opportunities).

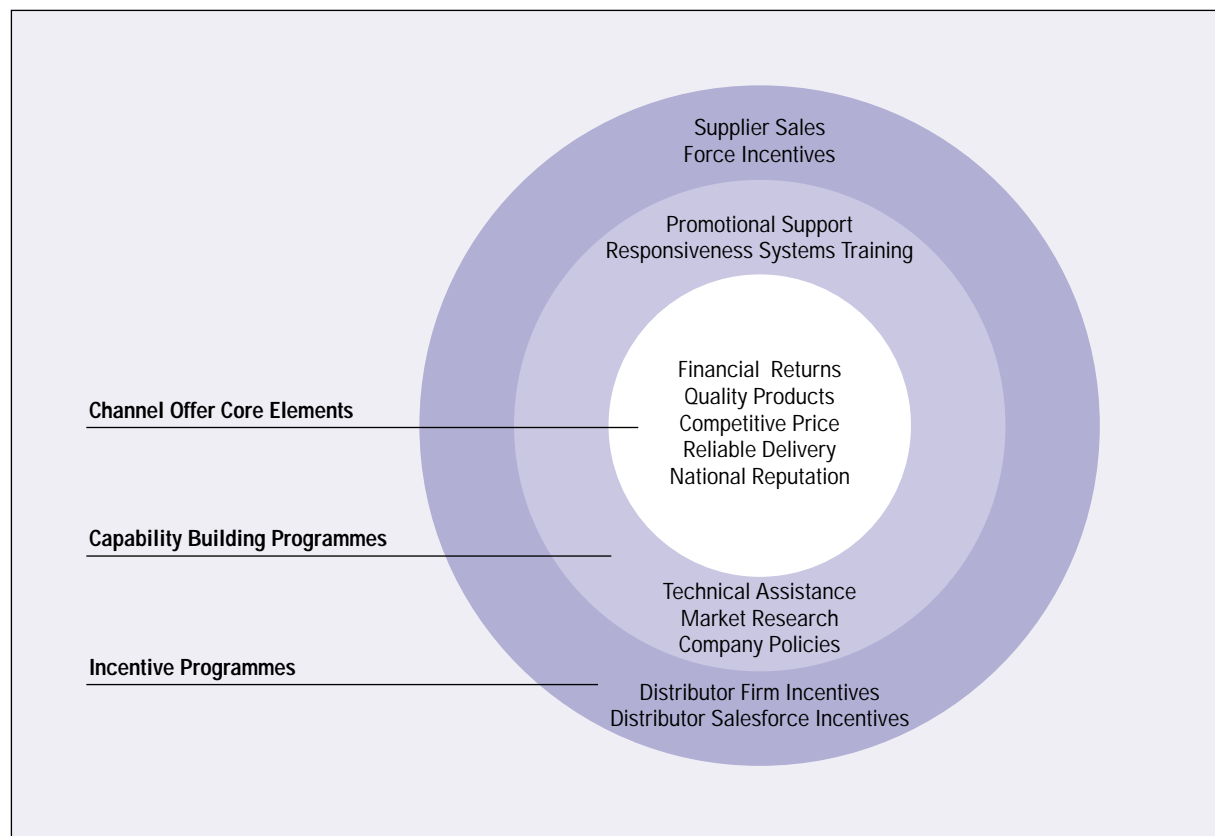
Communication has been described as “the glue that holds together a channel of distribution”¹¹³ and has been identified in empirical studies as a key determinant of both channel trust and commitment¹¹⁴. Consistent communication would appear to be as important as frequent and timely communication. Furthermore, the effectiveness with which an organisation communicates with its channel members is likely to be critically dependent on the skills and competencies of its ‘boundary spanning’ personnel (e.g. sales people)¹¹⁵. Thus, a manufacturer of software indicated that trust among its resellers had diminished due to the fact that messages delivered by local sales personnel regarding the company’s e-commerce strategy, were inconsistent and incompatible with those given by head office personnel. Local sales personnel also treated resellers as “a necessary evil” rather than as “strategic partners” and were less cautious than their senior counterparts in their use of coercive power to influence distributors (i.e. threats, legal pleas, etc). The latter point illustrates the importance of the character of channel communication: i.e. *how* a company chooses to communicate its desires, aims and objectives and its chosen method of influence¹¹⁶. It is also important to recognise that, as Mohr and Nevin¹¹⁷ suggest, communications strategy and style may need to be adapted to the characteristics of individual channel members (e.g. their maturity and power/dependence position) and the characteristics of the channel itself (e.g. the prevailing channel climate and whether transactional relationships or partnerships predominate). Thus, in some cases a ‘tell-and-sell’ approach may be more appropriate than an approach which emphasises collaboration and involvement¹¹⁸.

Providing a compelling channel support proposition, including good quality products and reseller support

(E.g. Effective promotional support, technical help-lines, training, accreditation schemes, EDI/Extranet links, good quality customer services and competitive prices, discounts and/or commissions).

There is evidence to suggest that a well-designed channel support programme can provide an important means of influencing channel members and generating their trust¹¹⁹. Allied to this, activities such as modifying products to meet the needs of channels, making internal organisational changes (e.g. the setting up of a channel(s) division), the seniority of contact personnel, the attitudes of boundary spanning personnel (e.g. short term sales vs. long-term business development orientation), accreditation programmes and so on, help to demonstrate trust in, and commitment to, the channel¹²⁰. It has been suggested that commitments such as these will tend to be reinforced by distributors¹²¹. An empirical study conducted by Anderson and Weitz, for example, found that distributor commitment to their suppliers was affected by their perception of the supplier’s commitment, which in turn was influenced by their perception of investments made by that supplier into the relationship¹²². A useful framework for identifying the dimensions of the channel offer is shown in Figure 7, on the next page.

Figure 7 Elements of the Channel Offer (Source: adapted from Narus and Anderson¹²³)



Avoiding 'opportunistic behaviour'

(E.g. making false promises, targeting the channel's customers without the channel's consent and so on).

Not surprisingly, such behaviours have been shown to diminish trust¹²⁴.

Developing a "partnership orientation" towards channels and treating channels as "strategic resources"¹²⁵

(i.e. adopting an *cross-organisational* orientation, consistent with the desire to treat channels as key business partners).

An organisation in the financial services sector had set up a separate group to manage its relationships with the Independent Financial Adviser (IFA) channel. The focus of its external contact personnel had changed from a short-term 'sales' role towards a business development, consultancy and training role. Allied to this, changes had been made to the method of remuneration. Table 4, on the next page, provides an illustration of what this change to a "partnership orientation" might entail.

Table 4 Making the Transition from the "Power Game" to the "Trust Game"¹²⁶ (Source: adapted from Kumar)

	Power Game	Trust Game
Modus Operandi	<ul style="list-style-type: none"> • Create fear 	<ul style="list-style-type: none"> • Create trust
Guiding Principle	<ul style="list-style-type: none"> • Pursue self-interest 	<ul style="list-style-type: none"> • Pursue what's fair
Negotiating Strategy	<ul style="list-style-type: none"> • Avoid dependence by playing multiple partners off against each other • Retain flexibility for self but lock in partners by raising their switching costs 	<ul style="list-style-type: none"> • Create interdependence by limiting the number of partnerships • Both parties signal commitment through specialised investments
Communications	<ul style="list-style-type: none"> • Primarily unilateral • Emphasis on 'tell and sell' 	<ul style="list-style-type: none"> • Bilateral • Emphasis on "collaborate and listen"
Influence	<ul style="list-style-type: none"> • Through coercion 	<ul style="list-style-type: none"> • Through expertise
Contracts	<ul style="list-style-type: none"> • 'Closed' or formal, detailed and short-term • Use competitive bidding frequently 	<ul style="list-style-type: none"> • 'Open' or informal and long-term • Check market prices occasionally
Conflict Management	<ul style="list-style-type: none"> • Reduce conflict through detailed contracts • Resolve conflict through legal system 	<ul style="list-style-type: none"> • Reduce potential for conflict by selecting partners with similar values and by mutual understanding. • Resolve conflict through procedures such as arbitration and mediation
Role of Boundary Personnel	<ul style="list-style-type: none"> • To create a sale • Personal relationships to be avoided 	<ul style="list-style-type: none"> • To manage the relationship for mutual benefit • Emphasis on learning from the channel and working together to deliver value through the channel • Personal relationships encouraged
Organisation to support the channel	<ul style="list-style-type: none"> • Single point of contact (e.g. sales person to buyer) 	<ul style="list-style-type: none"> • Use of cross- functional teams (also means that in the future a particular channel account is less dependent on any one individual)
Contact Personnel Incentives	<ul style="list-style-type: none"> • Based on sales to the channel 	<ul style="list-style-type: none"> • Based on joint performance and the quality of the relationship

Choosing reseller partners carefully

Empirical evidence suggests that channel trust and commitment are more likely to be engendered if companies choose and cultivate channel partners that have similar goals and values¹²⁷.

Developing/having common goals and engaging in joint business planning

This point links in with earlier comments about the importance of effective communication and choosing appropriate partners. For channel members to work together as partners, it is essential that they recognise and acknowledge their interdependence in relation to the ultimate goal of satisfying, and delivering value to, end users¹²⁸. Joint business planning together with regular reviews provides a useful vehicle for developing such a focus, as well as providing an opportunity to enter into dialogue and build trust¹²⁹. Such a process could involve the following:

...mutually defining performance objectives for each partner, thereby establishing expectations with which outcomes can be compared; specifying the co-operative efforts each firm requires of its partner to attain its objectives; periodic communication on the progress toward performance objectives, including discussion of any changes in marketplace or production conditions that would significantly affect them; and finally a respective review of each partners performance. Meeting or exceeding the performance objectives through co-operation lead to trust and satisfaction with the working partnership.

Anderson and Narus¹³⁰

Readers should note that a formal tool for conducting a 'dyadic' review of channel performance (i.e. one that takes into account the perspectives of both supplier and distributor) is offered by Hanmer-Lloyd¹³¹.

Treating channels honestly, equitably and showing "solidarity" with the channel

(E.g. Applying a common set of terms and conditions to channel relationships, undertaking never to undercut the channel, keeping confidences, giving confidentiality assurances, solving problems jointly and demonstrating a willingness to provide assistance to the channel in times of difficulty)¹³².

Empirical research suggests that a supplier is more likely to earn the trust and commitment of a distributor if it has developed a reputation for treating others fairly and engaging in co-operative behaviours¹³³. Thus, a supplier that has a reputation for regularly terminating distributor relationships or targeting distributor's customers directly is unlikely to earn a channel member's trust! According to Kumar *et al.*, suppliers need to pay attention to two dimensions of *fairness*¹³⁴:

- *Distributive fairness*: i.e. the extent to which financial earnings (e.g. margins/commissions) and other outcomes from the relationship are perceived to be fair by distributors, given factors such as the distributor's relative contribution to channel tasks and the earnings/outcomes of other distributors within the industry.
- *Procedural fairness*: the extent to which distributors perceive the supplier's policies, procedures and processes to be fair.

In an empirical study of manufacturer-dealer relationships in the motor vehicle industry, Kumar *et al.* found that *procedural fairness* had a greater influence on relationship quality as perceived by the reseller (i.e. channel trust, commitment and conflict) than *distributive fairness* (Six elements of procedural fairness are identified - see Table 5, next page). This is a particularly interesting finding given that several of the companies interviewed for this study felt that their distributors placed financial returns above all other considerations in their dealings with suppliers. However, it would not be appropriate to generalise Kumar *et al.*'s findings to the products and markets investigated for this report. Nevertheless, because procedural fairness is likely to require a substantial investment of time and effort and at the same time offer much greater scope for creativity, it is more likely to provide a durable basis for competitive advantage¹³⁵.

Table 5 Elements of Procedural Fairness (Source: adapted from Kumar *et al.*¹³⁶ and Kumar¹³⁷)

Element	Examples of Strategies
1. Bilateral communications: the supplier's willingness to engage in two-way communications	Having an 'open-door' policy to encourage distributors to discuss problems and issues, joint sales visits, distributor conferences and regular meetings between senior execs of both supplier and distributors
2. Impartiality: the consistency of the supplier's channel policies across distributors	Providing distributors with access to the same menu of service and support options, but tailoring the actual level of support to their particular circumstances and capabilities. Thus, for example, a manufacturer of computer peripherals has introduced an accreditation scheme whereby channel partners are accredited according to their particular field of expertise (i.e. enterprise printing vs. network printing and so on) and not arbitrary factors such as size and revenue generation
3. Refutability: the extent to which suppliers can challenge the supplier's channel policies	Setting up forums for channels to voice grievances, such as distributor advisory councils
4. Explanation: the degree to which the supplier provides distributors with a coherent rationale for its channel decisions and policies	Inviting distributor personnel to strategic planning meetings and briefings, engaging in joint planning exercises, top-level meetings to discuss future plans, etc
5. Familiarity: the supplier's understanding of local conditions under which distributors operate	Joint sales visits with distributor sales personnel
6. Courtesy: being polite and respectful to distributors	Recruiting and retaining 'boundary-spanning personnel' (e.g. sales people) with appropriate interpersonal skills and ability to establish good quality inter-personal relationships. Achieving an appropriate match between the attitudes and personalities of contact personnel and distributor culture and values

Monitoring and evaluating channel relationships on an ongoing basis

Clearly, companies need to be able to identify how well their relationships with distributors are working and where necessary take corrective action, which may involve terminating a relationship¹³⁸. However, given the comments made previously, it will be readily apparent that suppliers need to monitor more than simply the extent to which channel members are meeting financial goals. At the very least, suppliers need to be able to evaluate the extent to which the financial outcomes and other benefits from the relationship are meeting distributor expectations and at the same time, how these outcomes compare with those offered by competitors^{139,140}. By inference, this would require regular monitoring of distributor exceptions and competitors' channel offerings¹⁴¹. However, it would seem equally important for suppliers to monitor distributor satisfaction with other determinants of a good quality relationship, such as communications quality and the effectiveness of boundary personnel, together with factors such as the extent of channel trust and commitment¹⁴².

Using power cautiously and being aware of potential consequences of power/dependency imbalances

All companies possess some level of power and are likely to have to exercise that power in order to influence their channel counterparts¹⁴³. For example, brand strength is a source of power, the possession of which gives suppliers the ability to secure distribution for their products, influence the way in which channel members present and support their products and counterbalance the power possessed by the channel. There is sufficient evidence, however, to suggest that when channel members use power to cajole and coerce distributors (e.g. by threatening to withdraw support or to impose financial penalties), this can lead to a reduction in channel commitment, trust and satisfaction^{144,145}. Furthermore, a number of studies have found that conflict is higher and trust and commitment are lower in channel relationships in which there is an

imbalance of power/dependence, than those in which it is balanced¹⁴⁶. This might explain why a dominant supplier in the software sector was experiencing difficulties convincing its resellers of its sincerity regarding its e-commerce plans and in particular, its desire to continue operating through the existing reseller channel. Nevertheless, even in asymmetric power/dependency situations, it seems feasible for the more powerful party to use its position of strength to build an effective, trusting relationship, rather than act oppressively¹⁴⁷. It may be able to do so by fostering two-way communications and by instituting the fair policies that were described earlier¹⁴⁸. As 'boundary-spanning' personnel such as sales people play a key role in the application of power, it is essential that they are aware of the potential consequences of its use and know how to handle power appropriately.

Anticipating areas of potential conflict and deftly managing conflict when it arises

Interviewees identified a number of potential sources of conflict between their organisations and their distributors, including¹⁴⁹:

- Fundamental disagreements regarding future business models and the respective roles of suppliers and distributors within them;
- Suspicion and lack of trust among distributors, particularly with regard to suppliers' e-commerce strategies;
- Intensive/ "free-for-all" distribution policies;
- The establishment of new channels (especially direct marketing channels);
- Ambiguities/disagreements regarding their respective roles and responsibilities;
- Failure of channels to carry out their responsibilities with regard to following up sales leads, providing post sales support, providing market intelligence and carrying out market development activities;
- Inconsistent policies (e.g. with regard to accreditation/authorisation and distributor support);
- Inconsistent messages being presented to the channel regarding supplier policies and future intentions (e.g. senior management vs. salespeople);
- The dominant position occupied by the supplier/distributor in the market place and hence their ability to dictate terms and extract concessions¹⁵⁰;
- Channel/supplier dependence;
- Respective role of regional vs. local resellers/distributors;
- The management of global accounts;
- Disagreements over channel remuneration; and
- Personality clashes.

Given that channel systems are often composed of independent businesses each with their own objectives and stakeholder expectations, some degree of channel conflict is inevitable¹⁵¹. Nevertheless, empirical studies have shown that frequent, acrimonious disputes can lead to relationship dissatisfaction and to a reduction in supplier/distributor commitment¹⁵². Hence, conflict needs to be effectively managed. The management of conflict on a day to day basis is likely to be the responsibility of 'boundary spanners' (e.g. sales people and purchasing staff). Consequently it is important that these individuals are aware of the potential causes of conflict and are appropriately skilled to deal with conflictual situations as and when they arise¹⁵³. In situations where conflict occurs often and is of an intense nature as in cases where a supplier uses two or more routes to market, communication and negotiation skills are likely to be particularly important¹⁵⁴. As Magrath and Hardy¹⁵⁵ point out:

High conflict strategies require manufacturers trained in the skills of arbitrator because poor communications or inconsistent applications of distribution policies are detected right away...Manufacturers operating in high-conflict zones should see to it that their people are trained in negotiating skills and handling high-pressure situations without reverting to blaming behaviour or emotional responses.

Magrath and Hardy¹⁵⁶

Managing day-to-day interactions successfully

In order for a trusting relationship to be established and maintained, it follows that both sides must fulfil their day-to-day obligations¹⁵⁷. This includes ensuring that enquiries are dealt with promptly, delivery promises are met and that pledges of promotional support are honoured.

Developing good quality inter-personal relationships at multiple levels between supplier and channel

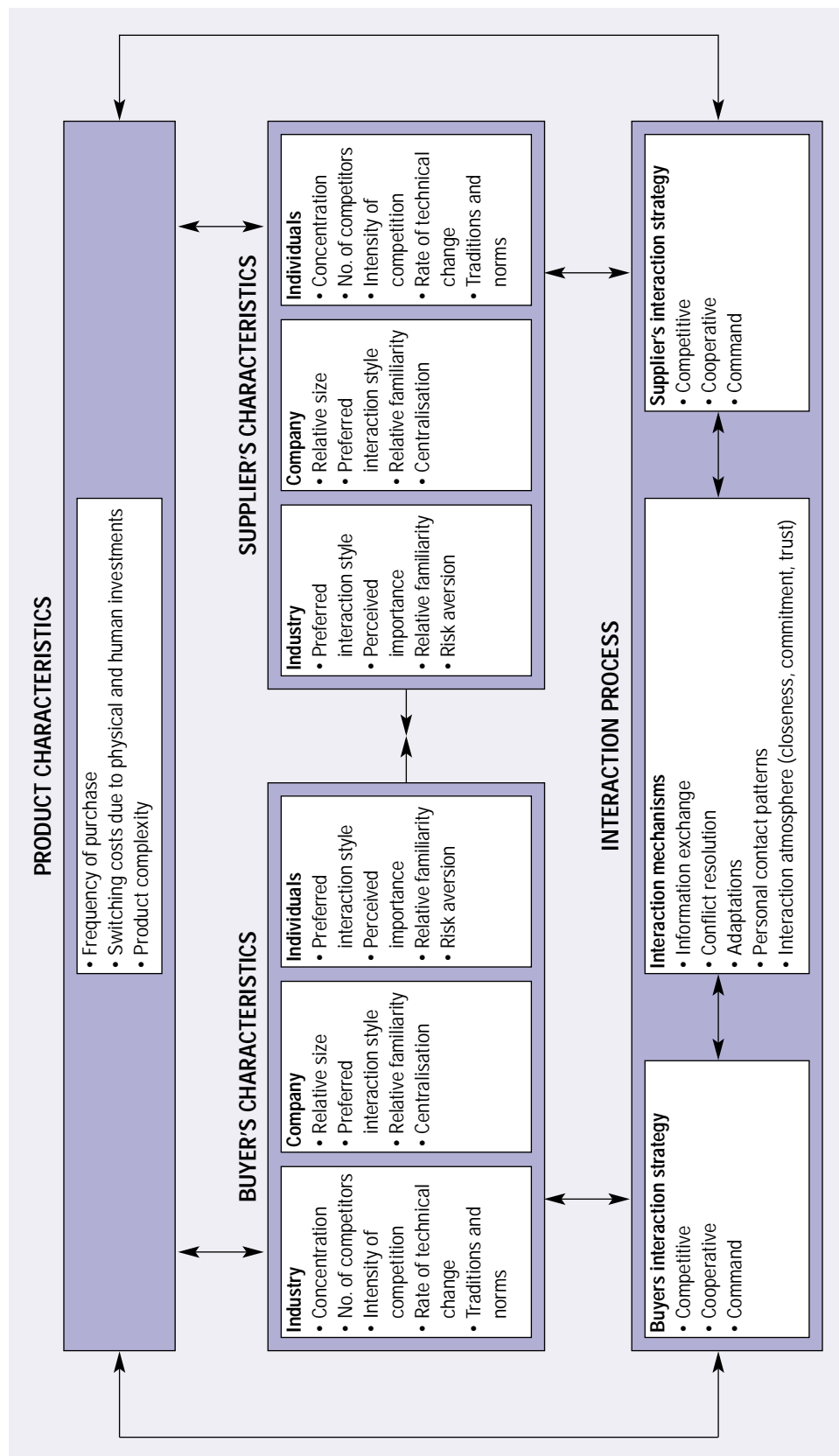
The quality of the relationship between supplier and distributor/reseller is also likely to be greatly influenced by the character of the interpersonal relationships that exist between the various boundary spanning personnel and senior managers from either side (e.g. between manufacturer and distributor sales staff)¹⁵⁸. For example, in common with other studies, Gassenheimer *et al*¹⁵⁹, noted that the reseller relationship satisfaction was influenced by the perceived competence of the supplier's boundary spanning personnel. Their importance is captured by the following quotation from an interviewee:

...Frankly, even in the Internet age, business is still an intensely personal, people driven situation. Even when partners are doing very stupid things and exploding or what have you, often the glue that holds the relationship together in the partnership and the relationships, may be at a lower level...At the end of the day, business is not done at the level of European Executives...It normally comes down to the way it goes on in the country, the relationships, how they are driving it, the trust they have in each other, the day to day contact.

Channel Manager, Computer Hardware Manufacturer.

Again, it is worth emphasising that attempting to develop a close, co-operative channel relationship will not be appropriate in every situation. For example, as was suggested in section 4.2, in an uncertain market environment a supplier may want to adopt a more "opportunistic" stance and perhaps invest in a portfolio of channels, some of which it may have to drop at later stage¹⁶⁰. Furthermore, suppliers need to be aware that there are potential downsides to the development of close, involving channel relationships. They may result in opportunities being missed to develop new and attractive routes to market (i.e. opportunity costs), over-dependence on a particular channel partner and the development of significant barriers to exit¹⁶¹. Also, suppliers need to be cognisant of the type of relationship that their channel members seek and whether they actually want a close, co-operative and long-term partnership. Ganesan¹⁶² and Jackson¹⁶³ emphasise the need for marketers to understand buyers' "time horizons" i.e. whether they are willing to make short or long term commitments to vendors. Similarly, Campbell¹⁶⁴ suggests a partnership will only be possible when both reseller/buyer and supplier adopt a co-operative stance. A variety of individual, product/service and company factors are identified as potential influencers of their willingness to do so (See Figure 8, next page).

Figure 8 Factors Influencing the Potential for Buyer-Supplier Partnership (Source: Campbell⁴⁰)



4.5 Improving channel competence

A number of companies expressed concerns about the competence and capabilities of their channels and had put in place a variety of strategies to overcome these problems, including:

- Accreditation programmes
- Training (business management skills, product knowledge and professional development)
- Joint selling/marketing activities
- Value added services (Internet, technical back-up, help-lines, etc).

4.6 Evaluating channels

The importance of evaluating channels and channel relationships has been alluded to on a number of occasions, notably in section 4.4. Among those interviewed, the majority of approaches to channel evaluation concentrated on financial and other outcomes (such as financial performance of the channel, percentage share of business and vendor status - i.e. whether primary or secondary), and the channel's perception of the quality of service they received from the supplier. Yet interviewees alluded to many other factors as being indicative of a good quality channel relationship, including:

- Frequent two-way communications at multiple levels;
- Commitment, demonstrated through repeat business, the allocation of resources to a suppliers products, a willingness to negotiate around the price/product package with a 'preferred supplier' (see section 4.4) and a willingness to carry out pre and post sales service; and
- Trust demonstrated through, for example, a willingness to exchange information and grant access to customer databases.

Few companies had attempted to measure these facets in any systematic fashion. Thus, there appears to be considerable scope for the use of more comprehensive relationship auditing tools, which take into account the factors that both supplier and distributor view as contributing to a good quality relationship. In addition to making its own unilateral assessment of the relationship (in terms of factors such as financial performance and levels of sales support provided by the channel), a supplier could administer a questionnaire, incorporating simple Likert based scales to assess a distributor's:

- Overall satisfaction with the relationship;
- Expectations in relation to, and satisfaction with key dimensions of the channel support package;
- Satisfaction with key boundary personnel;
- Level of trust in and commitment to the supplier/vendor¹⁶⁶;
- Perceptions about the frequency and intensity of conflict within the relationship;
- Perceptions about the fairness of the supplier's channel policies and compensation package;
- Perceptions of the benefits that the relationship with the supplier offers in comparison to competitive suppliers;
- Perceptions of communication levels within the relationships and the extent to which the supplier encourages two-way information flow.

Such a tool could also be used as an opportunity for dialogue and interaction between supplier and reseller as well as highlighting areas for corrective action¹⁶⁷.

Another difficulty experienced by companies relates to their ability to measure channel performance in terms of the service delivered to the end-user/consumer. In a number of cases, companies were unable to identify who their end-users were, largely because their channels were unwilling to provide access to their customer databases. A number of strategies had been used to combat this problem. These included the use of financial incentives (e.g. larger discounts) and contractual terms: i.e. the use of reward, coercive and/or legal legitimate power. Others however, had considerably less scope to use such strategies (e.g. Insurance companies and IFAs) and had to rely much more on building an atmosphere of trust with their resellers, in the hope that this would facilitate more openness and information exchange.

4.7 Aligning organisation, channel(s) and customer

In addition to aligning their channels to customers, interviewees discussed aligning their internal support structures, processes and cultures to support their channel(s), among the strategies and issues discussed were¹⁶⁸:

- Creating a structure for channel management and modifying responsibility accounting to effectively manage the overall strategic channel/routes to market mix;
- Adopting a process based perspective or horizontal organisation to bring together those parts of the organisation involved in the delivery of value to and through the channel (i.e. the entire value chain);
- Integrating all demand generation (pull) and channel support activities (push) under a single channels organisation and pooling skills, resources and expertise¹⁶⁹;
- Re-engineering internal processes/creating cross-functional teams to enable differentiated outputs to be delivered to particular channels and end-user segments (i.e. breaking down functional specialization and the "one-size fits all" mentality);
- The creation of cross-functional teams with responsibility for managing a particular channel or channels;
- Spinning off new channel operations (e.g. direct marketing channels) to provide an appropriate climate for them to survive (and thrive) and to prevent them being stifled by existing cultural values, managerial mind-sets and legacy systems;
- Changing the role and philosophy of the sales force from a short-term sales orientation to a relationship management and business development orientation;
- Managing internal interfaces - ensuring that channel management staff have the requisite skills for cross-functional working;
- Creating a positive, channel management culture and ensuring that boundary staff treat channel members as "strategic resources" and not simply as a "necessary evil";
- The need for influential champions for new channels and channel change; and
- The need for professional project management to ensure successful implementation of channel change.

4.8 Barriers to channel strategy implementation

A variety of internal and external barriers were identified¹⁷⁰:

Internal:

- Lack of a structure for managing the strategic channel mix/portfolio;
- Managerial assumptions that have lost their currency (e.g. "we operate through a two-tier system", "we only operated through indirect channels");
- Functional compartmentalisation - specialisation by function and an unwillingness to tailor outputs to particular market segments or routes to market;
- Incentives and responsibility accounting structures that encourage competition between channel groups rather than co-operation and integration (e.g. where each channel group operates as a separate profit centre);
- Emotional attachment to existing business models and routes to market strategies;
- Reluctance to write off financial and other investments in current channel configurations and routes to market strategies (e.g. sales people, computer systems, indirect channel infrastructures, interpersonal relationships, and so on);
- Difficulties associated with adapting internal systems (especially 'legacy' systems) to e-commerce requirements;
- Lack of communications and duplication of activity between channel groups;
- Costs associated with making channel changes. For example: 1) the costs of making the transition from short term sales to a relationship management orientation in terms of training, recruitment, redundancy and redeployment, 2) the costs associated with supporting a direct marketing operation and new staff that may have to be recruited, with skills in areas such as database management, marketing, web site design and management; and
- The difficulties associated with integrating new channels (e.g. electronic channels) into existing channel operations and managing the associated conflicts.

External:

- The difficulties in managing the transition associated with setting up electronic/direct routes to market, in terms of managing channel conflict and maintaining indirect channel support. The change may result in loss of business and/or encroachment by competitors in certain market segments;
- Differences of opinion with the channel regarding market trends and future business models;
- Reluctance of the channel to adapt to new ways of working (e.g. increased focus on services or applications, electronic fulfilment and so on);
- Unwillingness of the channel to invest in new business models and comply with supplier's requests;
- Allied to the above, a lack of trust in suppliers/vendors and suspicion regarding their motives and intentions, particularly in relation to direct marketing strategy;
- Developing a trusting and committed relationship where either supplier or channel work with competing brands (e.g. gaining channel trust and commitment where a supplier works with competing intermediaries);
- Channels lack funds to invest in alternative business approaches and/or are unwilling to discard existing infrastructure and investment;
- Difficulties associated with changing customer behaviour and migrating customers from one channel to another. Thus, consumers/end-users may be unwilling to change their way of purchasing and move toward new channels, resulting in a loss of business;
- Encouraging/motivating the channel to specialise in particular channel functions and tasks (e.g. fulfilment, applications support, after sales services, etc) and managing associated conflicts;
- Motivating the channel to invest in the supplier's product and carry out various tasks such as post sales support, 'solutions-selling' and market development, particularly in the case of new/relatively under-developed product-markets;
- Motivating the channel to support the supplier's product/service against a background of declining margins;
- Motivating the channel to exchange market/customer information;
- Lack of appropriate skills and competencies among existing channel members. For example, they may be particularly poor at after-sales service and end-user relationship management, or have developed around "box-shifting" and not services as desired by the supplier;
- Availability of suitable channel partners to implement a chosen channel strategy. A supplier may be forced to set up an entirely new channel from scratch;
- Educating consumers about the various channel options (e.g. the difference between IFAs and company representatives in the financial services sector);
- Government/regulatory pressures (e.g. in the financial services sector, government desire for simpler, lower cost products and hence pressure on costs and margins);
- Increasing consumer/end-user power created by electronic channels (e.g. web based search tools may make it easier for consumers to compare prices and search the market for suitable solutions);
- Remoteness from the end-user/lack of customer intimacy; and
- Legal/regulatory and technical barriers in relation to electronic fulfilment.

4.9 Skills and competencies required within the channel management function

Table 6 below, is based on a synthesis of the literature and comments from the interviewees. A mix of strategic and tactical issues were identified. Readers should bear in mind that the list would have to be adapted to the appropriate level in the channel management hierarchy.

Table 6 Skills and Competencies Required Within the Channel Management Function

Dimensions of Role	Requirements and Skills
Managing internal and external interfaces (e.g. with other channel groups and functional departments, relationships with channel partners and manufacturers of complementary products)	<ul style="list-style-type: none"> • Ability to manage power • Influencing skills • Negotiation skills • Team building skills • Leadership skills • Communications skills • Conflict management and avoidance skills • Cross-functional working skills
Managing the channel portfolio/ strategic mix	<ul style="list-style-type: none"> • Awareness of the inter-relationship between channel decision making and business strategy • Awareness of the strategic significance of channel decision making (i.e. cross-functional impact and long term implications of channel decisions) • Awareness of implications of individual channel decisions for the strategic channel mix • Ability to balance the channel mix in order to achieve overall channel goals • Ability to manage channel risk (e.g. investing in a portfolio of channel options) • Ability to forecast channel development paths
Maintaining fit between product, market and channel	<ul style="list-style-type: none"> • Monitoring channel trends/developments • Monitoring end user satisfaction, changes in service expectations, channel usage patterns and motivations • Monitoring environmental developments (e.g. regulatory changes) • Monitoring competitor's channel strategies • Encouraging information flow and market feedback up through the channel • Maintaining contact with and learning directly from end-users
Evaluating existing channels	<ul style="list-style-type: none"> • Appraising the <i>quality</i> of the supplier-channel <i>relationship</i> and not simply channel sales performance • Monitoring performance of the channel in relation to end-user satisfaction/desired service levels • Analysing distribution costs
Taking on new channels and managing channel transitions	<ul style="list-style-type: none"> • Ability to manage/avoid internal conflict (i.e. between channel groups) • Ability to manage/avoid external conflict (e.g. between existing indirect channels and new channels) • Defining and communicating the respective roles and functions of each channel • Integrating channel activities and functions
Developing channels, gaining their support and commitment	<ul style="list-style-type: none"> • Determining channel support requirements • <i>Marketing</i> to the channel as well as <i>marketing through</i> the channel • Developing effective motivation and support packages for the channel (including financial incentives) • Developing an atmosphere of partnership • Treating channels as "strategic-resources" • Using power cautiously
Successfully dissolving channel relationships	<ul style="list-style-type: none"> • Awareness of legal implications and remedies • Damage limitation skills

In this final chapter of the report, the authors have brought together the major issues that channel managers need to focus upon both today and into the new millennium. The chapter is divided into two sections. In the first section, a checklist of major issues is presented, which is designed to help channel managers audit their routes to market approach. The issues have been grouped under several generic headings. However, the reader will readily appreciate that overlap exists both between and within the categories identified.

The second section of the chapter presents a number of emergent trends identified by the authors which serve to challenge traditional channel management thinking and decision making.

5.1 Major issues to be addressed

The issues identified below have been fully addressed in the main body of the report.

What are the major drivers in your market and how do they impact your routes to market decisions?

- ▶ How does technology impact on product/service costs and subsequent channel decisions?
- ▶ How secure is your competitive position in relation to existing players and potential new market entrants?
- ▶ How well do you monitor and respond to end-user/consumer trends?

What information do you REALLY need to make innovative and profitable routes to market decisions? Do you collect and use information appropriately?

- ▶ How well do you know your customers/end-users?
- ▶ How do you measure and monitor channel effectiveness?
- ▶ Is information collected AND acted upon?
- ▶ Do you measure the quality of your channel relationships?
- ▶ Do you know the REAL cost of alternative routes to market?
- ▶ How well do you perform in the channel in comparison with your competitors?

What are the key internal and external barriers to achieving your channel strategies and how do you intend to overcome them?

- ▶ How can problems with internal legacy systems be overcome?
- ▶ How can internal reward systems be modified to change behavioural patterns?
- ▶ How do you change organisational culture?
- ▶ How can inappropriate, internal and external (i.e. channel) business models be effectively challenged?
- ▶ How can inter-functional and inter-divisional conflicts be resolved?
- ▶ How can trust and commitment be established and maintained within the channel?
- ▶ How can suppliers help channels to evolve with changing customer/market conditions?
- ▶ How can suppliers manage power effectively in high power/dependence situations?

What are the major issues relating to the use of electronic channels (e.g. the Internet), as vehicles for communications and as routes to market?

- ▶ How should the Internet be integrated into existing channel portfolios?
- ▶ How can the Internet be used to support, establish and strengthen channel relationships?
- ▶ How can the Internet be used to support, establish and strengthen relations with the end-user/consumer?
- ▶ How will the Internet link up with other direct channels such as telephone channels?
- ▶ How will the Internet affect market structure and operation?
- ▶ How will the Internet impact on existing business models and managerial frames of reference?

What are the key skills and competencies required by those responsible for managing channels at both a strategic and tactical level?

- ▶ Do managers have the practical and theoretical knowledge required to put together strategic channel management plans?
- ▶ Do managers have the key capabilities to overcome the internal and external barriers to implementing channel plans?

What is the most appropriate way of structuring and managing your routes to market?

- ▶ Does your channel management structure provide for the alignment of customer/end-user, the channel and the organisation?
- ▶ How are resources allocated between and within your organisation's routes to market?
- ▶ Who is responsible for managing the overall routes to market mix?
- ▶ How effectively is your routes to market portfolio managed towards optimization?
- ▶ How are power and conflict managed for short, medium and long-term advantage?
- ▶ How should you allocate tasks among your channels to maximise effectiveness and minimise conflict (multiple routes vs. hybrid systems)?
- ▶ How do you select, monitor and eliminate channel partners?
- ▶ How can you cultivate trust and commitment in your channel relationships?
- ▶ How do you develop a supportive channel management culture, which ensures that channels are treated as strategic resources and not as a necessary evil?
- ▶ How do you add-value *to* and *through* your channels to secure and maintain a competitive advantage?
- ▶ How do you reward and motivate your channels and internal personnel for good performance?
- ▶ How can you educate and motivate your direct sales force to co-operate with other channels?

5.2 Emerging channel trends

From analysis of the data a number of trends emerged which challenge traditional thinking within channel management. These are identified below and readers are invited to consider the implications for their channel strategy formulation.

From hierarchies	►	To networks
In many markets, traditional hierarchical channel configurations have given way to networks of companies, assembled around the task of creating and delivering end-user/consumer solutions. ¹⁷¹		
From contractual governance	►	To network facilitation
Traditional channel governance mechanisms are giving way to network facilitation and management processes. ¹⁷²		
From channel adversaries	►	To channel 'value-added' partners
Vendors/suppliers need to view their channels as key strategic resources and as an important means of enhancing their end-user/consumer value proposition (see sections 4.2.2 and 4.4).		
From in-house provision	►	To outsourcing
Companies need to look at their core competencies and consider seriously which value chain activities should be performed internally and which would be best performed by external intermediaries.		
From disintermediation	►	To 'reintermediation'? ¹⁷³
The Internet is forcing companies to reconsider the role and structure of their routes to market. In addition to bringing about the potential for disintermediation, the Internet is also resulting in the emergence of new or modified forms of intermediary ("reintermediation" ¹⁷⁴). (See section 4.1.3.1).		
From product-based competition	►	To service-based competition
Products now require a substantial service element to be competitive in the market place. (See section 4.1.1).		
From 'low velocity' channel management	►	To 'high velocity' channel management
Companies need to guard against rigid adherence to a single channel structure, especially in fast moving markets where a "trial and error" approach may be more appropriate. ¹⁷⁵ (See section 4.2).		
From customer buying	►	To customer hiring/renting
Companies must consider creating new vehicles to facilitate the development of customer/end-user relationships.		
From measuring satisfaction	►	To measuring relationship quality
Standard channel monitoring processes may not be adequate in the new relationship marketing paradigm where the quality of the relationship is key. (See sections 4.4 and 4.6).		
From human interaction to human-computer interaction	►	To computer interaction
The means of providing service to, and creating relationships with, channels and end-users/customers is changing and will have important implications for process design and organisation.		
From high-tech 'value-add'	►	To perceived low-tech 'value-add'
As the cost of technology falls dramatically, this will affect prices and customer perceptions, which will in turn affect channel strategy. (See section 4.1.1).		

From without the Internet	►	To with the Internet
Its here, so organisations are going to have to manage its integration. (See sections 4.1.2 and 4.1.3.1).		
From channel-centric organisation	►	To customer-centric organisation
The channel is NOT the customer, but a possible route to acquiring, satisfying and retaining the customer. (See section 4.2.2).		
From commodities	►	To brands
Branding is an important means of differentiating an organisation's offering. Watch out for the "price comparison road to extinction".		
From a sales culture	►	To a channel management culture
Selling to the channel is not sufficient; companies must also work with the channel in order to develop their capability to satisfy end-customer needs. (See sections 4.1.4 and 4.4).		
From multiple channels	►	To 'hybrid channel' systems ¹⁷⁶
Companies must consider carefully the transition from 'vertical' to 'horizontal' allocation of channel tasks and functions. ¹⁷⁷ (See section 4.3).		
From customer consumption	►	To customer 'prosumption'
IT enables consumers to take a much more proactive role in the specification and delivery of products and services. They are also able to control to a much greater extent the timing of their interactions with companies ¹⁷⁸ . (See section 4.1.2)		
From local/national player	►	To global/international player
The Internet provides companies with access to global markets, but at the same time makes strategies (e.g. pricing) increasingly transparent across geographical boundaries.		
From 'speculation'	►	To 'postponement' ¹⁷⁹
Developments in production technology and logistics enable firms to move away from a 'make for stock' model and closer to a 'make to order' model, which impacts upon the role of intermediaries. (See section 4.1.2).		
From managing channels	►	To managing change
As channel complexity increases, firms need to recognise that channel management involves managing internal change as well as managing the various supplier-channel interfaces.		
From intuition	►	To information
Companies can no longer rely so much on intuition; they need to become more knowledge-based. (See section 4.1.2).		
From tactical channel management	►	To strategic channel management
Channel decision making at a product level needs to be viewed as part of a broader strategic decision making process, which takes into account a company's entire portfolio of products and channels, its objectives, skills and resource constraints ¹⁸⁰ . (See section 4.2).		
From shareholder responsibility	►	To social responsibility
Companies need to design their channels and products to take into account the entire process of manufacture, consumption and disposal ¹⁸¹ .		

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